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European Energy Policy

Community Projects in the Hydrocarbons Sector (CPHS) Scheme.

ENERGY

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/210

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD(E)(79) 16	13/06/79
OD(E)(79) 4th Meeting, Minute 2	15/06/79
OD(E)(79) 18	21/06/79
OD(E)(79) 5th Meeting, Minutes	25/06/79
OD(E)(79) 31	10/09/79
OD(E)(79) 10th Meeting, Minute 2	13/09/79
OD(E)(79) 11th Meeting, Minutes	24/09/79
OD(E)(79) 33	01/10/79
OD(E)(79) 12th Meeting, Minutes	03/10/79
CC(79) 16th Conclusions, Item 2 (Extract)	04/10/79
OD(E)(79) 35	15/10/79
OD(E)(79) 13th Meeting, Item 2	18/10/79
OD(E)(79) 39	12/11/79
OD(E)(79) 42	20/11/79
OD(E)(80) 4	21/01/80
OD(E)(80) 1st Meeting, Item 1 (Extract)	24/01/80
OD(E)(80) 10	11/02/80
OD(E)(80) 12	11/02/80
OD(E)(80) 4th Meeting, Minutes	14/02/80
EQS(80) 22	10/04/80
CC(80) 43rd Meeting, Item 3	04/12/80
OD(E)(79) 17th Meeting, Minute 1	22/11/79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed OWayland Date 29 March 2010

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EUROPEAN PARLIAMENT

EUROPEAN DEMOCRATIC GROUP

Secretariat

Energy

STUDY DAYS MEETING

ROME

10-13 November 1980

"ENERGY POLICY"

REVISED:
12th December 1980

REINFORCING THE COMMUNITY ENERGY POLICY

Contents

5. Energy and Enlargement

Calls on the Commission to invite the governments of Greece, Portugal and Spain to submit energy forecasts for the years 1985, 1990 and 2000 and a list of energy investments necessary to meet these energy requirements.

6. Energy Saving

(a) Calls on the Commission to produce proposals for coordination and stimulation of conservation programmes with particular attention to improved energy saving in transport, industry, agriculture, office and domestic use and believes that more effort should be given to ensuring that public opinion is aware of the need for energy conservation.

(b) Calls for much greater emphasis to be placed on a more rational use of primary fuels in power generation and in achieving higher recovery levels in oil and gas fields.

7. Oil Substitutes and Renewable Energy

Calls on the Commission to collate information on potential oil substitutes on saving devices and alternative renewable energy sources and to recommend appropriate Community action in these areas.

8. Energy from Biomass

Calls on the Commission to make an assessment of the experience gained in Brazil, the U.S.A. and elsewhere in the production of liquid fuels from BIOMASS and to make proposals as appropriate for exploitation of BIOMASS Potential in the Community and the applicant States.

9. Energy Revenues

Calls on the Commission to assess the various possible ways of financing Community Energy Investment and promoting energy saving, including such means as large scale borrowings and taxes on energy production, consumption and/or importation.

10. Nuclear Power, Safety, Waste Disposal

(a) Calls on Member States to accelerate the introduction of nuclear power and to take measures to inform public opinion about improving the safety of nuclear power and waste disposal.

(b) Calls on the Commission to ensure the supply of information on nuclear power, the fuel cycle and its safety, particularly for public opinion in Member States which are unable to proceed with investment in nuclear power.

11. Security of energy supply lines

(a) Draws the attention of the Council to the apprehension felt over the vulnerability of energy supply lines both inside NATO areas and beyond.

(b) Calls on the Commission to assess the security of energy supply lines and to make suggestions to mitigate any risks to them.

EUROPEAN DEMOCRATIC GROUP

ROME STUDY DAYS

NOVEMBER 1980

GUIDELINES FOR REINFORCING THE COMMUNITY'S ENERGY POLICY

The European Democratic Group

having regard to

- the statement of the Venice Economic summit of June 1980 that unless the problems of energy can be solved it will be impossible to cope with economic problems
- asserting that the main energy problems can only be solved by joint action between member states of the Community
- noting that the narrow nationalist attitudes which have often predominated at Council level obstruct progress by the Community in solving the main energy problems
- welcoming the progress which was made in establishing clear guidelines for the Council of Energy Ministers of 13 May 1980
- pointing out that the world recession will persist and deepen until energy costs are stabilised
- further stating that world peace is endangered until secure energy supplies and demand are in equilibrium

1. Community Energy Policy

Calls on the Community to coordinate the public and private resources necessary to pursue a Community Energy Policy which is consistent with the decisions of the Venice Summits.

2. Recycling Opec Surpluses

Calls on the Commission to explore with Community and world financial institutions and with the governments of OPEC States the most effective ways of recycling the surpluses of the oil producing countries, particularly into energy investments and to meet the needs of the less developed countries, for example through decisions taken in OECD and the World Bank.

3. Energy Investments

Calls on the Commission to draw up a coordinated programme for investment in substitutes for oil such as coal, nuclear and alternative energy sources, in order to reduce the disparities in the oil dependence of Member States.

4. Energy in the Developing World.

Requests the Commission to invite the governments of the associated states and the partner states of the Lomé Convention to submit projections of their energy investment needs to 1990.

12. Nuclear Fusion and Fast Breeder Reactors

Calls on the Commission to produce a critical path analysis, including estimated costs, of bringing nuclear fusion and large fast breeder reactors to the stage of commercial application widely in the Community.

13. Harmonisation of Energy taxes and prices

Supports the concept of a common approach to energy pricing and the level of taxes on energy in order to reduce the distortions of competition in the Community.

14. Hydrocarbon and Uranium Exploration

Calls on the Commission to consult with world oil and mining companies on the measures necessary to accelerate exploration for hydrocarbons and fissile raw materials both within the Community and the partner states of the Lomé Convention.

15. Electricity and Gas Grids

Calls on the Commission to discuss with national utility companies and report to the Parliament the measures necessary to establish integrated electricity and gas grids throughout the Community.

16. Concertation in energy

Calls on the Community Institutions and member states to collaborate more closely in formulating, implementing, financing and coordinating effective energy policy including actions more appropriately undertaken at governmental and commercial level.

17. Annual Reports

Calls on both the Council and the Commission each to submit an annual report to Parliament describing in detail the actions taken by them during the previous year towards achievement of Community energy objectives and assessing the progress made.

18. Public Transport

Calls on the member states to invest in modernisation and construction of public transport systems to conserve energy in the urban environment and provide an alternative to wasteful use of private vehicles.

19. Rationing

Calls on the Council and Commission to make the necessary preparations for petrol and fuel oil rationing, in case at some future date oil supplies from the Middle East are cut off.

b. SUMMARY

The purpose of this memorandum is to highlight areas of energy policy which are better, and more cheaply, carried out by the Community jointly. The Community Energy Policy should concentrate on these areas in order to develop common policies where common interests exist, leading to joint action.

Other areas of energy policy should be left mainly to member nations to manage themselves.

iv. Growth and the Energy Situation

The current studies of the Energy Programme for the 1990's indicate that if the present recession continues with less than 2.7% annual growth, the Community might just scrape through with the present energy scenario (assuming no catastrophic interruption of oil supplies). But if a 3½ to 4% growth is resumed - as indeed it has to be, in order to maintain, let alone increase, employment - energy supplies will have to be doubled (St.Geours report of June 1979, p.49). That is unless the ratio of Energy growth to Economic Growth can be reduced to 0.7 or 0.6 to one, which is the main purpose of Energy Policy. "Energy Efficient Growth" is indeed the watchword for the next 20 years.

B. AREAS FOR COMMUNITY INTERVENTION IN ENERGY POLICY

The problem of the oil crisis lies simply in two areas - Uncertain Supply and Excessive demand. The solution is less simple - to increase supply and reduce demand.

1. Increasing Stable oil supplies

a. The first objective of Community Energy Policy must be to negotiate with OPEC nations, individually or as a group, for stable oil supplies at stable prices.

b. The second objective is to increase oil supplies from areas outside the volatile Middle East. The North Sea is one such area; the Atlantic Ocean, West of Shetland, the South West approaches to the Channel and the Upper Norwegian Coast are others. Exploration in these areas must be stepped up, because it is impossible to plan a depletion policy until we know how much oil and gas is there.

Enhanced oil recovery (from about 30% to about 45%) is the second necessity. Oil companies will not spend money on this, unless it promises an early profit and increases the return on the capital they put at risk. For this reason, it makes an ideal area for Community long-term financing, in order to conserve oil supplies.

c. The third objective is to step up oil exploration in ACP countries, who are said to have 15% of the World's undiscovered oil reserves. To achieve increased exploration in Lomé, the Commission must put its political weight behind the oil companies, and provide the necessary guarantees.

2. Reducing Demand for Oil

a. This means finding substitutes for oil and reducing oil consumption by conservation.

b. The Community depends on oil for 54.3% of its energy. The Energy Council on May 13th 1980, adopted a new target of 40% dependence by 1990. The Community Energy Policy should go further faster. We should aim at 35% by 1990 and 25% by the year 2000 (25% corresponds approximately to the level at which oil producers can absorb and make good use of their income).

A. INTRODUCTION

i. The Third oil crisis

The Community is now experiencing its third oil crisis since 1973. There is no reason why this series should not continue indefinitely. If we are unsuccessful in keeping open the Straits of Hormuz industrial disaster faces the West. The Community not only faces a shortage of energy: but also a further outbreak of oil-induced inflation, economic stagnation and unemployment. This is the main significance of the oil crisis.

The economic summit in Venice on June 23rd concluded that "Successive large increases in the price of oil...... have produced the reality of even higher inflation and the imminent threat of severe recession and unemployment". and "The economic issues which have dominated our thoughts are the price and supply of energy. Unless we can deal with the problems of energy, we cannot cope with other problems".

From this one might expect that an unanswerable case for a Community Energy Policy had been accepted at top level. But the opposite is the case. Despite passionate commitments to a Common Energy Policy by President Jenkins and several Presidents in office, the member governments of the EEC, including the U.K., show a marked preference for National Energy Policies and only concede to the Commission 4% of all energy investment and current budgetary expenditure.

ii. The need for an Energy Policy

It is a widely held view in Westminster and Whitehall that a Community Energy Policy can only evolve gradually from a number of bilateral ad hoc arrangements and should not be imposed from the top. The Budget Council acts as though it regards Community expenditure on energy as a second priority to expenditure on agriculture guarantees etc.

As a result of this, the Community is deriving no benefit in the energy sector, from being a Community. There is no advantage from scale, there is no advantage from being one large united market for modern energy technology and equipment. There is duplication between member nations both in research and development and in energy facilities. The Community lacks weight in negotiating with the oil and coal producing countries. The weaker members of the Community and the developing ACP countries lack the financial resources which a united Community should provide to develop alternative sources of energy and thus become independent of oil imports.

iii. The Commission's limited powers

Due to the narrow nationalist approach of most member nations of the Community, the prospect of a Community Energy Policy is receding at this time. There is a feeling abroad, that the Commission is not equipped to handle large projects and is only able to work effectively in a narrow area of energy research and development and demonstration projects. There is a lamentable lack of perception of the areas of energy policy where common action organised by the Commission is bound to be more effective. It is the purpose of this report to pinpoint these areas, and having done so, to demand that the Commission be given real powers and financial resources to do what is ABSOLUTELY NECESSARY to solve the Community Energy Crisis, in the next few years. For this purpose, the Parliament must also take powers to monitor progress.

(2) Nuclear Fusion

The JET Culham Tokamak project is the best symbol we have of a Community Energy Policy in action. Due to its open ended nature, its eventual cost is uncertain. It is obviously too expensive for any one member nation to undertake on its own. Nor can it be left to Free Enterprise, due to its enormous cost and doubtful profitability, in the short term. Consequently, it must be a joint Community Project.

Every effort must be made to see that the next stage of nuclear fusion is located by the Commission alongside Culham Jet, near Oxford. This will facilitate easier know-how exchange between Jet and the Second Stage.

(3) COAL

1. With the current insecurity of oil supplies, it is important that the Community give high priority to the development of indigenous resources. This means ensuring that the German and UK coal reserves are properly exploited. In order to reduce the demand for oil, the whole Community has an interest in ensuring that as much coal is mined as is practical. It is therefore reasonable for the Community to give aid to the industry. This could take the form of interest rebates for the installation of coal burning plant, for opening up new mining capacity and increasing mechanisation. For four years however, the Council has failed to follow the demand of the European Council that Coal production be increased. Consequently, no Coal aid projects have been approved. Since Community coal consumption is planned to rise from about 300 million to about 580 million tons per year by the end of the century, it is unrealistic to expect indigenous Community Coal supplies to suffice.

2. Probably 200 million tons of cheaper coal will have to be imported from the U.S.A., Australia, South Africa, Poland etc. For this reason the Commission must give financial assistance, particularly to the poorer member nations, to expand their coal importing infrastructure - railways, docks etc.

(4) GAS

In Britain, North Sea natural gas has largely replaced Reformer gas, derived from Naptha, for Industrial & Domestic supplies. It is now economical to gather North Sea Gas, rather than flare it off at the well head. The liquid component of Natural Gas (LNG) contains valuable products like Ethane, propane and butane, which are useful Chemical Feed Stocks. Consequently, the oil & chemical majors are scrambling for it.

Unfortunately, the Norwegian sector is much richer in gas deposits than the British Sector. Due to the greater price offered by the Continental group of countries, led by Germany, much of the Norwegian Gas will probably be piped down to Emden to join the European gas network. There it will reduce the dependence of the Community on Soviet, Dutch and Algerian gas. To get Britain hooked into the European network is a clear objective for the Commission. It would at least make it easier to harmonise unequal gas prices.

c. It is useless for only the stronger members of the Community to solve their energy problems, while the weaker members and the ACP nations remain helplessly dependent on oil imports, due to lack of finance and technical resources. It would not only be bad politics, it would be bad economics. The oil producers will continue to raise prices and oil-induced inflation will continue, to the detriment of the whole Community. Furthermore, the important objective of economic convergence in the Community will recede.

d. Hence a major item of joint Community Energy Policy must be to find the resources necessary to enable all members of the Community and Lomé - strong or weak - to become equally independent of imported oil.

B2 (a) SUBSTITUTES FOR OIL

(1) Nuclear power from Fission

Nuclear power will be needed not only to fill the energy gap left by North Sea Oil at the end of the Century, but also because it will provide electricity at a price at least 40% lower than oil fired electricity. Not only Running Costs but also Capital Costs of Nuclear Power stations are becoming lower than coal fired stations. The Commission therefore has a major task to overcome public apprehension, in all countries of the Community, about nuclear power and nuclear waste disposal. Harmonisation of nuclear safety standards throughout the Community would contribute substantially to public confidence.

In addition, the Commission's main functions should be:-

1. To promote a dynamic expansion of nuclear power along French lines.
2. To promote direct and indirect research into the safety and efficiency of the whole nuclear fuel cycle, including waste disposal. The Commission should establish a link with the Nuclear Safety Analysis Centre (NSAC) in Palo Alto, California. It is a nuclear industry based organisation, which records every event and deviation from normal in Nuclear Power Stations world wide.
   They have the ability to identify minor precursors which could lead to major accidents.
3. To encourage cooperation between member nations in developing the F.B.R. and other advanced reactors which could reduce dependence on imported Uranium.
4. To arbitrate on the siting of nuclear power stations.
5. To encourage exploration for Uranium inside the EEC.
6. To assist weaker members of the EEC and Lomé, to invest in Nuclear Power.
7. To encourage the expansion of Uranium Enrichment Capacity within the Community, in order to become independent of USSR and USA for Nuclear fuel.
8. To implement Chapter VI of the Euratom Treaty more rigorously and control supplies of nuclear materials.
9. To educate members of the media in the basic technology of Nuclear Power, in order to prevent reporters misinterpreting the situation due to ignorance, and spreading panic among the public.

(5) Alternative Energy Sources

Renewable alternatives to coal, oil and nuclear for electricity generation are sometimes called "Soft Technologies" in the new jargon. They imply a more gentle decentralised society, which eschews massive national electrified energy systems. Frau Walz's report on "Soft Technologies" will probably be debated in the Plenary in December.

However successfully they are developed, they are unlikely to provide more than 4-7% of the Community Energy requirements by the year 2000. They will however be of great benefit to Lomé countries and remote parts of the Community.

The Commission has an important and increasing role to play in coordinating research and development work on alternative energies - both by direct and indirect contracts and by giving financial assistance to demonstration projects. It should also carry out an ongoing evaluation of the economic facility of the whole range (see appendix I). Duplication could be avoided by Research at Community level being centralised in those countries which have already made most headway in the particular field required., i.e., (a) Solar - France, (b) Geothermal - Italy, (c) Wind - Germany, (d) Wave - U.K.

David Howell has said that the price of oil will inevitably rise until it equals the price of the main alternative fuels. The rise in oil price does however have the compensating effect of making it profitable to exploit many hitherto unprofitable sources of energy, such as shale oil. It also gives priority to the need to reduce the cost of fuels, and energy carriers, which could replace oil. Taking Capital and Running costs into account, the cheapest non-oil source of energy is COAL, followed by Liquid Natural Gas (LNG). The most expensive at this time is SOLAR followed by BIOMASS.

(6) Conservation

Conservation is the most rapid and cost-effective area for reducing energy demand. The most powerful conservation measure is to ensure that energy pricing reflects the true cost of replacing that energy. This policy however necessitates special measures to protect weaker social groups.

The SAINT-GEOURS report of June 1979 states that there is scope for 35% saving in Transport, 35% in Industry and Agriculture and 50% in the Domestic and Tertiary sectors. Furthermore, energy saving can be a growth Industry. The Commission's task in conservation is to coordinate exchange of information and experience, promote research in conservation incentives and develop conservation standards and regulations. This is however, only a secondary, though important role. Member Nations must do the main work, in the light of each one's special circumstances.

a. Energy savings in Transport

Two thirds of the sixfold increase in Energy Consumption in the U.K. between 1953 and 1973, was accounted for by various types of Transport.

(i) Pricing Policy is the main device used at present by governments to induce energy saving in transport. But it is only effective in the short-term during major step changes in price. The public tends to acclimatise itself to price rises in petrol and oil. Furthermore the REAL price of petrol is less than it was 25 years ago when a gallon of Petrol cost 74 minutes of work; now a gallon costs only 31 minutes of work. The current savings in oil consumption are largely due to recession and are therefore not permanent.

(ii) Improved Public Transport
A major saving could be achieved by making public transport more efficient and more attractive to the public. It is false economy to skimp on public transport. This is one area where subsidised public investment will pay off. It can halt the present trend towards private transport which is profligate in oil; whereas public transport can largely be driven by nuclear and coal powered electricity. People will return to public transport if it is reliable and efficient.

(iii) Vehicle Design Improvements
Hopes will have to be pinned on increased efficiency of existing modes of transport. The Mini Metro takes the lead in this trend. In the medium term better designs of cars could incorporate the use of diesel, rotary engines, gas turbines, electronic carburettor control, etc. The Commission is introducing standards for measuring fuel consumption. according to voluntary targets. In the short term, lower speed limits will be the most effective petrol saver, however.

(iv) Air Transport Systems
The most effective energy saving in Air Transport would be to rationalise the Community Air Transport System, a clear task for the Commission.

(v) Road Transport Systems
The same rationalisation of Community road and rail transport systems would produce major fuel savings.

b. Energy Savings in Industry

A member of the British Government is quoted as saying that a major increase in Energy Prices would only have a very minor effect on Industrial Costs. That may be true in certain industries; but in process industries, steel works, foundries etc., where electricity or gas is the main cost, the effect is crucial. Manufacturing Industry uses 0.95 Kgs of oil equivalent per £1 of production. Service Industries only use 0.34 Kgs - a third.

In manufacturing therefore, the use of microprocessor control to limit peaks of demand can save hundreds of thousands of pounds in energy costs. The appointment of a well briefed factory energy saving committee also has striking effects.

c. Agriculture

The Commission should update their guidelines for energy saving in Agricultural Machinery, the more rational use of fertilisers. They are very energy intensive to produce and it is doubtful whether the application of the marginal pound of fertiliser is cost effective, in a community where surpluses are a problem. The better use of local alternative sources to heat farm buildings and glass houses, is desirable.

d. Buildings

Architects must be encouraged by the Commission to design much more energy saving concepts into their Domestic, Industrial, Commercial and Public Buildings. The Commission should, in the interests of fuel economy, issue energy regulations for Public Buildings. They should lay down maximum permissible room temperatures and maximum air conditioning temperatures, as is the practice in USA. In view of the slow progress being made with voluntary insulation and draft-proofing of domestic, public and industrial buildings, The Commission must make a deep study of the fundamental causes of this reluctance, and then recommend financial and tax incentives which would be most likely to overcome them.

e. Domestic

Housewives are constantly complaining about the wasteful design of all the domestic appliances which they buy - ovens which radiate almost as much heat outside as inside, badly insulated boilers, inaccurate thermostats etc. Appliance labelling with its electric power rating is a current Commission initiative. But the Americans have gone further. Every appliance sold in a shop has to have attached to it a card indicating (a) its power consumption in KW, (b) the average cost per year of running that appliance. <u>This is the CRUCIAL point</u>! It is not the rate of which an appliance consumes electricity that matters, it is the total amount it consumes to do a specific job that is important.

f. Distric Heating

While every effort must be made to persuade electricity utilities to promote combined heat and power systems, its application is likely to be restricted to new urban areas close to existing power stations. The two do not always go together.

(7) <u>Rotterdam Spot Market</u>

With the Middle East in flames and a third oil crisis threatening our economies, the Commission has an important short term function, in abating any scramble by member nations and oil companies, for the scarce oil. This scramble for tanker loads has caused rapid price inflation in previous oil crisis. The oil companies might resent any interference; but they are not the main sufferers from oil price inflation. The Commission should see that there is complete transparency in oil stocking policies between member states, in order to avoid panic buying, overstocking and consequent price escalation. The Commission has already organised a detailed registration of tanker movements inside the Community, which should help to control the situation.

C. FINANCE FOR ENERGY INVESTMENT

On April 22nd 1980, The Commission forecast that 414 Billion EUA would be needed between 1980 and 1990 for investment in energy within the Community.

GENERAL

The Energy Council on May 13th 1980, launched a new initiative to evaluate the investment plans of each member nation. The result should form the basis of a "Consistent overall investment policy for energy". Once this survey is completed and the Commission makes its report to the Energy Council during November, 1980, it will be necessary to examine how best the ever-growing additional finance for investment can be found.

At present the Community is devoting only 2% of its GDP on energy investment: 4% of this inadequate sum is financed by the Community Instruments, such as the European Investment Bank, the Ortoli facility, E.C.S.C. and interest rebates on project loans from the Regional Development Fund, 48% of EIB loans are in fact for energy projects: but these tend to be for major national power station projects, and do not help the smaller energy initiatives. The favourable terms on which the Commission can arrange finance for energy investors, due simply to the size of the Community, is an asset of which much more use should be made.

Recycling OPEC surpluses

OPEC's trading surplus in 1980 will be about $130 Billion. The EEC will hace a trading deficit in 1980 of about $40-50 Billion. In recent years Petrodollars have been recycled through the International Banking System, including the Euromarket, the World Bank and IMF, the oil companies, direct investment and by direct OPEC development aid to less developed countries.

While the Venice Economic Summit stated firmly that it looked to the International Capital Market, to continue to play the primary role in recycling the substantial oil surplus funds, it recognised that the supervision and security of the International Banking System had to be improved. The strain on the International Banking system derives from the fact that OPEC nations prefer to lend short, while energy investment requirements are clearly long.

There is considerable support for the suggestion that a new European Instrument be established for recycling Petrodollars. The EPP have suggested an EEC/OPEC Energy Development Fund or a European Holding Company financed jointly by the Community and OPEC on a 50/50 basis. The function of these funds should be to supplement the activities of private and public banking institutions. Alternatively it has been suggested that an energy section could be created in the E.I.B. or the World Bank, into which OPEC surplus funds could be channelled. The problem with all these suggestions is that OPEC would undoubtedly want a major representation, even a controlling one, on the board of such an instrument. This takes a bit of swallowing; but it may well have to be swallowed if things go on as they are.

While the Commission should not take on the responsibility for handling OPEC surpluses, they should be instructed to hold detailed discussions with OPEC countries and the various institutions mentioned above, in order to identify the most promising avenues for recycling OPEC surpluses. They should also discuss with the OPEC nations individually what technological or commercial assistance the Community could provide to balance against the financial help provided by OPEC.

A Parallel problem - ventilated in the Brandt report - is the need to bring together the underdeveloped resources of the Third World, with the OPEC financial surpluses and the technological expertise of the Western Nations.

It is generally accepted that negotiations with OPEC are far better carried out bilaterally with individual member nations, rather than with OPEC or OAPEC as a Group. Each member has different problems and political backgrounds, and they tend to freeze up when confronted together as a Group.

Until the whole question of the VAT ceiling for the Community Budget has been resolved, it is unlikely that adequate finance for energy will be provided through the Community budget.

A separate paper is attached in Appendix III on the oil import levy which is a possible method of providing additional resources for energy investment, while at the same time discouraging oil consumption. Meanwhile the Commission should continue to step up their present practice of assisting Energy investment mainly by interest subvention of 3% or so, on loans from the European Regional Development Fund.

D. UNEQUAL ENERGY PRICES AND TAXES

i. Lack of reliable data

There is a growing conviction among British and possibly Danish industrialists that unequal energy prices in the EEC are distorting competition.

Commission statistics, admittedly 7 months old, in COM (80) 152 final, of March 20th 1980 tend to contradict the British industrialists who claim that they are paying more for gas and electricity than their continental competitors. Furthermore, British taxation on energy, which charges no tax on coal, gas or electricity and relatively low taxes on oil products, appears to be considerably lower than continental taxation. It is very difficult to establish the facts concerning pricing because individual companies in the Community have widely differing contracts with electricity and gas suppliers. Not only the Commission, but also the new CBI Energy Group and NEDDO, are studying this matter in depth and will soon be able to produce an up to date report. We are in touch with them.

ii. Commission's proposals

The wide variation in pricing and taxation policy in the countries of the EEC was first challenged by the Commission in 1973, but nothing came of it. The Commission is now planning to commence a long term programme of harmonisation of energy pricing and taxation policy. They will propose:-

(i) improved transparency in gas prices
(ii) linkage of gas prices to oil prices
(iii) a uniform two part tariff for electricity
(iv) eliminate tariffs which differentiate between use (power and light) separate circuits are wasteful
(v) elimination of promotional tariffs for large users, which would tend to increase consumption. Also all electricity promotion which promotes consumption.
(vi) ensure that the cost of reduced tariffs for social reasons are born by the exchequer and not the electricity producer.

iii. Taxation as a weapon of Policy

Taxation should be used, not only to raise money, but also to influence the behaviour of the economy. Taxation policy in the EEC is not at present related to energy policy. Where petrol and oil products are taxed, it is mainly to provide revenue; not to reduce consumption. The Commission must produce proposals for an EEC programme to establish harmony in energy pricing and taxation policies, consistent with our main energy objectives of reducing dependence on oil imports, conserving energy and developing alternative energy sources.

E. EUROPEAN GAS AND ELECTRICITY GRIDS

1. "Britain the Power House of Europe"

There is considerable talk of tieing Britain into European gas and electricity grids, in order to achieve flexibility of supply and saving of capital investment, particularly among the weaker members of the Community. One fear however, is that such an international hook up would be difficult to manage - though not impossible. It is the role of the Commission, aided by the European Parliament, to overcome the parochialism of very disparate national industries in this matter; it is not the role of the Commission to usurp the commercial role of the electricity and gas boards.

In Britain we have to adopt a more outward looking attitude. Britain has the opportunity to become the Power House of Europe. We have ample reserves of coal and gas, we have an underused nuclear power industry and we have a degree of security against military invasion, which makes us the ideal location for a European Power House.

This role would give Britain a much better balance of payments relationship with the Community. Instead of exporting raw coal and oil, straight from mines and oil wells, we should be exporting coal and oil with the ADDED Value of being upgraded into electricity.

It is up to the Commission and Parliament to persuade the Utilities of Europe that Energy is a Commodity to be traded in the Community in order to achieve the best possible competitive basis for energy prices.

F. NORTH SEA OIL AND THE COMMUNITY

Unless the Iraq/Iran war spreads and the Hormuz Straits are blocked the West can cope for the time being with the help of well-disposed oil producers such as Saudi Arabia.

If however, the Middle East goes up in flames, the I.E.A. 1976 Emergency Treaty will come into force. If oil supplies to any member of IEA (France is not a member) fall by more than 7%, the other members are obliged to come to his aid, by sharing out their own oil.

North Sea oil will be one of the main safety resources in such an emergency.

But our Partners would like more. They would like to share the title of Britain's North Sea oil, or at least to receive supplies on Preferential Terms.

They say that unless North Sea oil production can be increased tohelp fill the gap caused by the Iraq/Iran war, they cannot reasonably insist that Saudi Arabia should maintain an increased flow.

In fact Britain already exports 28% of her oil and 50% of that goes to Europe.

If Britain made a special price, some middleman would sell it at a profit on the spot market.

Britain does not even sell it to the British Market at less than world market price. That is her policy.

It is there in case of emergency. But otherwise the government intends to make it last as long as possible.

Meanwhile, Britian is taking the opportunity to rebuild her industry and alternative sources of energy against the day when the oil wells rund dry.

There is a small body of opinion which considers that, nevertheless, Britain should not exclude using North Sea oil as a political bargaining counter which might be used to get a better conclusion to the CAP negotiations.

G. CONCLUSION

The areas of Energy policy best handled jointly by the Community can be summarised as follows, (though this is not necessarily a comprehensive list)

1) Negotiation with OPEC nations, concerning oil supplies and the Brandt recommendations
2) Stimulation and Coordination of Exploration, particularly in high risk or highly speculative parts of the Community and ACP countries
3) R & D to seek substitute energies
3a) Coordinate the Investment programmes of member states, in order to reduce dependence on imported oil to 25% by 2000.
4) Steps to ensure that all members of the Community and ACP countries become equally independent of oil imports
5) Steps to overcome the hold ups in Nuclear Power programmes
6) Join NSAC in USA, in order to improve Safety of Nuclear Plants
7) JET Culham Nuclear Fusion Tokamak development, including the next stage of the project
8) Promote the new infrastructure required for transporting imported coal - coal transport vessels, special docks and railways
9) Modernisation of Indigenous Coal Production
10) Promotion of oil through coal liquefaction.
11) Integration of British Gas into the Community Gas Grid, together with Norwegian Supplies
12) Harmonisation of Gas and Electricity tariffs and taxes
13) Rationalising the centres for R & D in Alternative fuels, to avoid unnecessary duplication
14) Constantly survey the economic prospects of the whole range of alternative energy sources
15) Research standardisation and stimulation of conservation measures in road, rail, air and sea transport, industry, commerce, agriculture and domestic and public buildings
16) Promote transparency in the Spot market and controlled stocking among members of the Community and I.E.A.
17) Arrange finance on favorable terms through the existing Community Instruments
18) Consult with the major financial institutions as OPEC on the desirability of establishing a specialised Energy Fund, fed to a major extent by recycled OPEC surpluses
19) Promote the oil import levy as a revenue for energy investment and as a disincentive to oil consumption.

20) Revise energy taxation in the Community in a manner consistent with the Community's Energy objectives

These measures should be considered as the parameters of a Community Energy Policy, managed by the Commission. They need not involve inordinate expenditure. They will however achieve objectives which individual members would find impossible to achieve on their own.

APPENDIX I

ALTERNATIVE ENERGY SOURCES

Renewable Energy Sources & Devices

1. Biomass

The production of ethyl alcohol as motor fuel by fermentation and distillation of cane sugar has been practised on a large scale in Brazil. Ethyl alcohol can also be obtained by converting the starch in corn or manioc to sugar, and then fermenting and distilling off the alcohol.

Unfortunately the cost of distillation etc., causes the process to consume more energy than it produces. It nevertheless provides the energy in a form which can be used in cars and planes. Most energy sources are quite unsuitable for this.

A rich prize awaits the person who can convert cellulose (in wood) into a fermentable sugar. a) devise a fermenting process or new yeast which will produce a much more highly concentrated alcohol content and thus reduce distillation costs. b) devise a cheaper method of extracting water free alcohol.

Other forms of Biomass which yield energy are:-
(a) Compacted straw and Rapid growth trees (3 years in India) for burning
(b) Sunflower seed oil which can be used to extend diesel fuel in tractors
(c) Methane from dairy manure
(d) Alcohol obtained from fermentation of milk whey
(e) Rubbish recycling which comes under this heading

2. Solar Energy

As a producer of heat Solar Panels have been disappointing: however, photo-voltaic cells as used to power-satellites, which use the sun's rays on silicon to generate electricity, are much more promising for certain purposes though their efficiency is not much more than 10%. Solar tracking and focusing devices make solar heat more intense, but are uneconomically expensive at present.

3. Geothermal

Obtaining heat from the centre of the earth is only practicable in certain parts of the world. It is proving to be a promising source of heat in France, Italy and Norther Ireland.

4. Wind & Wave

Both these sources suffer from the fact that to produce as much electricity as a single 1000 MW Nuclear Power Station, they would both have to cover 160 miles in length. This would be environmentally unacceptable. They definitely belong to the "Soft Technologies".

5. Tide

The Severn Barrage would have one of the few sufficiently large tidal falls to operate an electricity generator economically. At present the project is barely economic but it is well worth pursuing further.

6. Hydrogen

Research into economic thermo-chemical or electrochemical ways of producing hydrogen are probably less important than development of practical ways of applying hydrogen gas to daily use in motor cars, which are undoubtedly a long way off. Nevertheless Lockheed are designing a hydrogen-powered aeroplane. There is no reason why hydrogen should be more dangerous to distribute and use than petrol.

7. Hydroelectric Power

This has been applied to its limit in most countries; it is expensive to transmit. It can be made more economically feasible by combining it with pumped storage as in the North Wales project at Dinorwic

8. Energy Storage

It is essential to develop new systems of energy storage if we are going to make good use of intermittent or variable sources of energy such as solar or wind.

9. Genetically Engineered Energy

In California, genetic engineering has been employed to evolve organisms which can produce motor fuel from Biomass or Refuse. It may be possible to capture nitrogen from the air with high efficiency and thus replace the high energy consumption of fertilisers.

10. Ocean Thermal Energy Conversion (OTEC)

This system uses the large temperature difference between ocean bed and surface, to operate an organic Rankin cycle whereby Freon gas or ammonia is gasified in order to drive a turbine to produce electricity. This is mainly applicable in tropical countries.

Non-Renewable Substitutes for Oil

1. Hydro Carbons

1. Coal Gasification
This is now on the point of being competitive with Natural Gas and production scale plants are being constructed for example by EXXON in Holland

2. Coal Liquefaction
Petroleum from coal is one of the few alternative energies which is suitable for motor cars, lorries, aeroplanes and boats. The South African SASOL two stage process is said to be only 40% efficient and expensive. The USA with Japan and Germany are spending vast sums ($20 billion) on industrialising a new direct single stage process (SRCII) which will be 60% efficient. In contrast the EEC propose to spend only 100 million MEUA on developing coal liquefaction.

3. Underground coal gasification and liquefaction
in its early stages. It could one day enable us to get at the rich new coal beds under the North Sea

4. Shale oil
A plentiful solid Hydrocarbon found mainly in USA, which has to be extracted by liquefaction by steam or by igniting it underground to melt it !

5. Tar Sands
A prolific source of oil found mainly in North America. It has to be separated from the sand which is expensive.

6. Heavy oil
A near solid Hydrocarbon approaching coal. It is now regarded as economic to extract.

7. Gas or Hydro Cracking
In view of the greater demand for light fractions of oil, there is a marked increase in oil cracking, whereby heavy oil is converted to lighter fractions by the addition of hydrogen at very high temperatures.

<u>More efficient, or alternative, uses of electricity</u>

1. Heat pumps
A 40% reduction in electricity consumption is claimed by the suppliers of Heat Pump Installations which reclaim heat from the air or the ground by using the other end of the refrigeration cycle. The high capital cost is generally recovered in about 10 years.

   An even greater economy can be achieved by combining the Heat Pump with low grade solar heat. The Joint Research Centre establishment at ISPRA are enthusiastic about this possibility.

2. Combined Heat & Power
This system increases the efficiency of an electric power station from 30% to 60/70% by using the low grade heat from the turbines to provide municipal, domestic or agricultural heat.

   It is only applicable on a large scale in new urban areas. It can be used for agricultural or industrial low grade heating.

   The French are developing CHP using specially designed nuclear power stations as the prime source.

3. Electric Cars
Several different combinations of materials are being developed in order to produce a battery suitably light and powerful to drive a motor car 80 miles at a charge. Sodium Sulphur is the one promoted by Chloride Company. The Commission should arrange a demonstration by the manufacturers.

4. Fuel Cells
Fuel cells of which there are several types convert chemical energy directly into electrical energy. Used in the Apollo & Gemini Space programmes, hydrogen/oxygen fuel cells are fed with hydrogen at the carbon (or metal) anode and oxygen at the cathode. The electrolyte is potassium hydroxide. Unlike lead/sulphuric acid batteries, the electrodes do not change in the reaction.

5. Magneto Hydrodynamics (M.H.D)
Coal, gas or oil are burnt at a very high temperature and the combustion gases at 500^{o}C are 'seeded' with an easily ionised material such as potassium carbonate which becomes magnetic. The gas is then blown at high velocity through a strong magnetic field. Electricity is generated. Thus coal has been converted into electricity directly without going through the expensive phase of steam generation and a turbine. The Russians are ahead in this technology.

APPENDIX II

ENERGY POLICY AND ENLARGEMENT OF THE COMMUNITY

It is generally accepted that there are crucial problems for the Community in the continued increase in imports of OPEC oil. The European Parliament expressed its concern in the motion for resolution contained in the report by Mr. Pintat, "On the Prospect of Enlargement of the Community", Part II approved by Parliament April 1979.

Parliament called on the Commission "to afford all help to the applicant countries in the development of all new forms of energy".

The need for Community support for the energy policies of Greece, Portugal and Spain is illustrated by the dependence on imported oil for total energy consumption in 1979: (Source BP, European Commission)

Greece	Spain	Portugal	The Nine
58%	61%	69%	48%

In its economic and sectoral analysis of enlargement, COM (78) 200 final, the Commission stated:

> "The energy situation in the applicant countries is comparable to that in the present Community, particularly that in the Member States which are most dependent on oil imports. The applicant countries have, generally speaking, made efforts to improve their energy situation, to reduce consumption and lessen their degree of dependence on imported oil. It is important that these efforts be continued and that the energy policies of the applicant countries move as closely into line as possible with the energy policy objectives established at Community level.
>
> It will be necessary in particular to take account of the energy situation in the applicant countries throughout the negotiations and when special measures for those countries are drawn up."

So far special measures have not been drawn-up, and unless timely action is taken to invest in alternative indigenous energy sources the applicant states will suffer a worsening of their terms of trade with all that means for the performance of each of their economies.

GREECE

The total primary energy requirements of Greece have until recently been met by imported liquid fuels. The table below illustrates the energy situation of Greece.

ENERGY BALANCE OF THE HELLENIC REPUBLIC

(m tonnes of Oil equivalent)

TOTAL PRIMARY ENERGY	1980	1985	1990
Demand	18.2	25.3	33.5
Domestic Production	5.3	9.8	14.1
Net Imports	12.9	15.5	19.4
DOMESTIC PRODUCTION			
Oil	0.6	1.1	1.0
Gas	0.2	0.4	0.2
Lignite	3.7	7.2	8.8
Nuclear	-	-	3.0
Hydro	0.8	1.1	1.1
NET IMPORTS			
Oil	12.3	14.5	18.1
Gas	-	-	-
Coal	0.6	1.0	1.3

It is essential to reduce oil imports, running at 12.3 mtoe annually, which represents a burden to the balance of payments in excess of $ 2.5 billion annually. Lignite was until recently the only primary energy resource, annual production being in excess of 22m tonnes, and reserves estimated at 3.6 bn tonnes. There may be a further 1 bn tonnes of lignite. Lignite-fired electricity generating plant is expected to account for 4 GW of production in the period in 1985-1990, a tripling of present capacity. The Greek National Energy Council places emphasis on the exploitation of the country's lignite potential. So long as labour is freely and cheaply available for the mining of lignite, the calorific disadvantage of lignite relative to coal, which is wholly imported, might be economically sustainable.

The principal sources of oil are the Arab states principally Saudi Arabia, Libya and Iraq and the Soviet Union, supplies being obtained by government to government negotiation. Greece is understood to pursue a policy of diversified sources of supply to balance the risk of supplies shipped through the Dardanelles. Iraqi oil is delivered through the Iraqi-Turkish pipeline. Greece is planning 2m tonnes of oil storage capacity which will be supplied by the Soviet Union.

The National Energy Council (answerable to the Ministry of Coordination and Planning as supreme advisory agency) aims at extensive exploitation of local sources of energy, i.e., lignite, waterfalls, oil and gas deposits. It is estimated that 20% of the country's current hydroelectric capacity is exploited. Thus, Greece should be encouraged to invest in high and low head hydroelectric facilities, using say regional development aid for the purpose, the Public Power Corporation (PPC) planning for a doubling of capacity. The PPC plans the introduction of nuclear power in 1987 with 600 MW plant. An increase of oil fired capacity of 528 MW is planned. (It should be borne in mind that supplying islands by electricity grid could be prohibitive hence the investment in seven small oil-fired generating units). Total installed electricity generating capacity in 1988 is expected to be 11.5 GW compared with 5.5 GW in 1976, the estimated investment requirement being $ 10 billion.

Greece is expected to become an oil producer of modest stature during 1981. The oil-bearing basin of Prinos is expected to produce 25,000 bd (barrels per day) and 20 million cubic feet of gas. There are plans to import gas from the Soviet Union, Bulgaria and Algeria, and a project to pipe gas by submarine pipeline across the Adriatic from Italy is being studied by the Italian firm SNAM-PROGETTI, a subsidiary of ENI.

The Greek Government exercices monopolistic control of the seventeen oil companies operating in Greece. Membership of the Community will require liberalisation of this practice, at least gradually, the purpose of which is the subsidy of diesel fuel in public transport, industry and agriculture by adjustment of petrol prices.

The report of the National Energy Council indicated that Greece would pursue a policy of conservation and rational use by the imposition of taxes, discouraging the use of electricity, incentives for solar energy installations and investment in new energy saving processes. Energy savings targets have been set for industry.

Biomass is already exploited by mixing 7% alcohol obtained from sugar beet with petrol. This mixture will be compulsory and farmers will be provided with additional income from more extensive beet cultivation. (Any restructuring of Greek agriculture using Community support should take account of this policy which is apparently already successful in Brazil).

Total coal imports are less than 500,000 tonnes annually. Due to the long timescale set for the first nuclear power station, an increasing energy gap is expected during the 1980's. PPC plans the construction of two 350 MW generating sets to be fuelled by 1.5 mtce coal annually. Community support for the early completion of this project seems essential.

PORTUGAL

The available statistical information on the Portuguese energy situation and forecasts is limited and conflicting. The International Energy Agency and the Portuguese Government have published the following table showing the breakdown of Portugal's Energy Requirements:

TABLE SHOWING BREAKDOWN OF ENERGY REQUIREMENTS

	1973 IEA	1978 IEA	1978 GOVT	1980 GOVT	1985 GOVT
TOTAL ENERGY REQUIREMENTS in million tonnes of oil equivalent	7.6	9.56	8.502	10.142	14.37
of which %					
Solid Fuels	7.8	5.2	5.1	8.1	15.2
Oil	70.5	68.7	83.3	86.7	76.1
Hydroelectric & geothermal & Others	21.8	26.0	11.6	5.2	8.7

During the 1960's and early 1970's Portugal achieved economic growth with a reduction in total energy requirements relative to GDP of 0.93. Portugal has the lowest per capita energy consumption in Europe, 0.74 toe compared with an average for the Community of 3.5 toe, 8.2 toe for the USA, and 0.3 toe for the LDCs. After 1973 the energy elasticity ratio * increased to 1.12. Petrol and fuel oil prices rose to higher levels than those obtaining in

* elasticity ratio is defined as the ratio of annual increase in energy consumption to the annual increase in gross domestic product, each expressed relative to the previous year's statistics.

in other European states. Electricity prices were slower in following suit. As in the rest of the Community, the years of cheap oil saw a gradual replacement of coal by oil until oil accounted for more than 70% of energy requirements.

Oil imports in 1979 of 8.3 mtoe were a burden to the balance of payments of $ 1.2 billion accounting for half the nation's trade deficit of $ 2.5 bn. Government forecasts suggest that the cost of oil will double to $ 2.3 bn in 1980.

Portugal has limited lignite resources, estimated at 42 million tonnes of which 25 million tonnes are recoverable. There are hopes of finding oil onshore and in deep Atlantic waters. There have been limited finds of high quality oil in the Lisbon area. In 1979 the government appropriated $ 800m to exploit the country's natural energy resources. An additional 2.25 GW of hydro-electric plant will be operational by 1984. Total existing generating capacity is 3.39 GW.

Until recently Portugal was dependent on Iran for 20% of its oil needs. In the future Portugal should be able to obtain oil supplies from Angola and Guinea Bissau. Nonetheless Portugal is desperately short of indigenous energy resources and its economic vulnerability is clear.

Portugal appears to be an obvious market for coal-fired and nuclear plant. Portugal is planning to commission six 300 MW coal fired plants from 1984, calling for coal deliveries in 1983. Portugal is believed to be examining offers for coal supplies from Australia, USA, the Republic of South Africa, Colombia and the Community.

Support for the building programme for coal-fired plant and the accompanying infrastructure and to encourage an early go-ahead for nuclear power should form the core of a Community strategy to prepare the Portuguese economy to contribute to the economy of the Community as a whole.

SPAIN

The Cortes adopted Spain's second energy plan 1977-1987 in July 1979. The plan provides for an annual increase in energy consumption of 4% to 1987. The Spanish energy situation is described in the two following tables:

SPANISH ENERGY BALANCE
1976

	Demand		Production		net import		
	Mtce	%	Mtce	% of total demand	Mtce	% dependence	% total consumption
Coal	14,5	15,4	10,2	10,9	4,3	29,7	4,5
Oil	67,7	72,1	2,5	2,7	65,2	96,3	69,4
Gas	1,9	2	-	-	1,9	100	2,0
Nuclear Energy	2,4	2,6	2,4	2,6	-	-	-
Hydraulic Energy	7,4	7,9	7,4	7,9	-	-	-
TOTAL Primary Energy:	93,9	100	22,5	24,1	71,4	-	75,9

COMPARATIVE TABLE OF ENERGY CARRIERS USED IN THE GENERATION OF ELECTRICITY

	SPAIN (1987)		THE NINE (1985)	
	Mtce	%	Mtce	%
Solid Fuels	15,3	26,8	172,0	29,2
Oil	6,1	10,7	127,9	21,7
Gas	-	-	36,5	6,2
Hydroelectric	13,6	23,8	51,9	8,8
Nuclear Energy	21,5	37,7	201,0	34,1
Other	0,6	1,0	-	-
	57,1	100,0	583,9	100,0

The plan envisages an installed nuclear energy capacity of 10.5 GW by 1987, generating 14.8% of the country's energy needs. Spain has three nuclear power stations in operation generating 1.12 GW with an additional eight installations planned.

The pluriannual energy budget for 1978-1981 amounts to 6,600 MEUA, 60% of which is destined for nuclear power investments. Although Spain was understood to be considering a rephasing of energy investments in the light of its recent economic performance, the endorsement of the energy plan, by the Cortes, boosted the nuclear construction programme. A uranium enrichment plant with a capacity of 600 tonnes annually has been authorised to be built in the Salamanca area, to meet eventually 40% of the nation's uranium fuel needs. The Community might encourage Spain to implement this project. Disposal facilities for Spanish nuclear waste will be required, providing for instance a new market for British Nuclear Fuels Limited.

It is worth noting that Spain's nuclear power programme has the support of government and opposition parties and that both are conscious of the risks associated with the peaceful use of nuclear energy. There is a private assumption that the state would act as guarantor against claims for damages in the event of an accident. Thus Spanish public opinion might be reassured if Spain became associated with the Community's research and development programme on the safety of the nuclear cycle and management of radioactive waste. Spain possesses in excess of 13,000 tonnes of uranium ore reserves.

Spain has been invited by the Commission to participate in the JET project. ("YA", 24.8.79) Spain has considerable coal, anthracite and lignite reserves, 1,339 mtce,882.5 mtce and 820 mtce respectively (mtce=million tonnes coal equivalent), sufficient for an estimated 80 year's consumption. In the decade to 1987, 2.25 GW of lignite fuelled plant and 2.75 GW of coal fired plant are planned. The lignite mines, like coal mines, are important employers of labour. So long as labour rates are at levels which compensate for the lower calorific value of lignite relative to coal, then the resultant electricity will be competitive. As the Spanish economy is more industrialised than those of the other applicants any inflationary cost pressure in the price of electricity may be expected to make an impact sooner than in the other applicant countries.

As Spanish coal is indifferent in quality and thermal content there will be a continuing need for imported coal, currently in excess of 4.1 mtce annually supplied by Poland (1.4m), USA (1.3m) and Australia (0.7m) with smaller tonnages from the Federal Republic of Germany, the Netherlands, Soviet Union and Canada. Spain has not so far purchase British coal.

In 1982 and 1987, forecasts contained in the National Energy Plan 1978-1987, indicate a continued and unchanged level of burning oil in electricity generation namely 600,000 tonnes oil equivalent annually (4.5 m barrels), compared with total forecast energy production of 42.5 mtce and 57.1 mtce.

In order to reduce or contain Spain's dependence on oil, every encouragement should be given to the national energy conservation programme and to associate its implementation with the Community's action in this field. Similarly, Spain might be associated with the Community's demonstration programme for novel sources of energy.

Spain is totally dependent on gas supplies from Libya and Algeria. The completion of the Segamo gas pipeline from Algeria will link Spain to the European gas grid.

Important commercially exploitable gas and oil reserves were discovered in Spanish territorial waters in 1978 and 1979. In the late 1980's these sources might be meeting 10% of Spain's energy needs.

Energy pricing policy in Spain is considered by the OECD to be comparable to that practised by other member states of the Community.

COMMUNITY ACTIONS FOR CONSIDERATION

a) to link Greece Portugal and Spain to the Community's Action Programme for Rational Use and Conservation of Energy.

b) to promote the use of coal and nuclear power in electricity generation by Greek Portuguese and Spanish undertakings through
   i. loans for improved port and coal handling facilities
   ii. financial support for the construction of coastally situated coal fired power stations; the principal Spanish state coal enterprise HUNOSA has suffered large financial losses in recent years.
   iii. loans for the construction of nuclear power plant

c) association of Spain with the fusion programme - say a Spanish financial contribution which should be offset by support for Spanish demonstration projects in alternative sources of energy, e.g., biomass, solar energy; some large solar installations have already been built.

d) association of Spain with the Community's uranium prospecting programme

e) aid to Greece & Spain for the reprocessing of nuclear waste

f) EURATOM support for the Spanish uranium enrichment programme; alternatively Anglo-Dutch-German (URENCO) or French (EURODIF) support for the Spanish project; it should be noted that these are commercially competitive and technologically different systems.

g) the Commission to examine the technical and economic feasibility of an electricity grid by submarine cable linking certain Greek islands.

h) the Commission's Directorates General for Agriculture and Energy to examine the required policy and support to enable the restructuring of Greek agriculture in favour of energy-profitable agricultural products, e.g., sugar beet.

i) any consideration of Community action in support of the accession states should take account of the geopolitical situation in the eastern Mediterranean where Turkey's energy gap is the most fundamental problems affecting the country's chances of economic growth. Escalating oil costs crippling the Turkish economy have led to insufficient investment and thus inhibited the exploitation of Turkey's lignite, geothermal and solar energy potential.

Such oil as Turkey possesses is situated in the east. The International Court of Justice declared itself incompetent to arbitrate the Turkish claims to offshore resources in the whole of the eastern Aegean sea, excluding the territorial waters around the Greek islands, against the Greek claim to the continental shelf around the islands. Greece and Turkey however have a mutual interest in exploring and exploiting oil in the disputed area to their mutual economic benefit. Exploration is currently at a standstill. The Council should therefore request the Commission for proposals to enable exploration and exploitation to be pursued without prejudice to historic rights and claims.

j) the Commission to prepare a financial assessment of the foregoing actions and to make appropriate recommendations for increased revenue.

APPENDIX III

AN E.E.C. OIL OR ENERGY LEVY

1. INTRODUCTION

The present protracted world recession was triggered largely by the exceptionally large escalation of oil and energy prices.

Some Members of the European Democratic Group in the European Parliament are advocating a Community-wide initiative to reduce unemployment, to stabilise currencies and to stimulate economic growth.

This would be based on an energy-investment programme, financed by a Levy on energy consumption, oil consumption or oil imports.

Of the fiscal choices before us, the suggested oil import levy is undoubtedly the most likely to achieve the specific objectives of a Common Energy Policy for oil i.e., reducing dependence on imported oil, stepping up oil conservation developing indigenous oil resources, promoting alternative fuels and at the same time achieving greater convergence in the Community.

Those who have hastily declared their opposition to the concept, should withhold judgement for the moment and wait and see how Community negotiations develop on the CAP and the 1% VAT limit.

It is doubtful whether the apparent saving in oil during 1980 owes as much to genuine conservation and energy switching as it does to industrial recession.

A more muscular approach to switching out of oil will almost certainly be necessary. The fact that we are bringing all other energy prices up to the equivalent of oil prices, will certainly do nothing in itself to promote switching out of oil.

The oil import levy must, however, be a long-term matter; circumstances will change and those who see it as a useful project for future Community negotiations, should not be deterred by some unconsidered off-the-cuff reactions to it.

2. THE E.E.C. OIL IMPORT LEVY

The level of levy which has been talked about has varied between 1% and 6% on the total value of oil imported into the EEC - which is about £48 billion per year. A 1% Community Levy would yield about £480 million per annum, and a 6% levy would yield about £2.880 million per annum.

It is important to decide how and where it will be most effective to spend the proceeds, the choice being whether it should go into the main Community budget or whether it should be hypothecated for cheap loans or interest rebates on energy conservation investment projects.

If it is regarded as a contribution to solving the energy crisis, it should obviously remain in the energy sector.

If, on the other hand, it is required to circumvent the 1% VAT limit, it could be a contribution to "our resources".

Both alternatives are legal under the Treaty of Rome, provided unanimity is achieved on the Council.

3. THE ARGUMENTS IN FAVOUR OF THE OIL IMPORT LEVY are:

(i) : It would discourage the use of oil.

(ii) : It would reinforce the policy of limiting the use of oil by a price mechanism.

(iii) : It would provide investment finance or interest rebate assistance on energy loans aimed at developing conservation or new sources of energy to replace oil.

(iv) : It could provide a way out of the 1% VAT ceiling impasse.

(v) : As a disincentive to excessive oil consumption the oil levy does not differ in principle from the co-responsibility levy on milk which is, however, a disincentive on excessive production. The former is paid by the Consumer, the latter by the producer. Like all good taxes it has a socio-economic purpose as well as as a fiscal one.

(vi) : It would be a logical development from the European Coal and Steel Community 1% levy, which has been running since 1951, and which was enacted in a period when oil was not a major factor in the energy scene.

(vii) : A case has been made out by Anthony Baron of Hoare Govett, that since oil prices will inevitably show continual upward surges in the foreseeable future, a levy would have the effect of re-directing into the community, some of the continuing rise in oil prices, which at present goes to the oil producers in its entirety. This presumes that there is a maximum economic world market price for oil at any one time.

(viii) : The logic of the oil levy is inescapable. Why should crude oil imports be free of levy or tariff, when nearly all other imports to the Community from third countries are subject to a 6% or more common external tariff, which is paid into the Community budget.

(ix) : Any tax which obstructs the import of oil would be popular with miners and others involved with the production of other forms of energy.

4. THE ARGUMENTS AGAINST THE OIL IMPORT LEVY.

(a) : Britain as an oil producer would pay hardly any tax, and this would be unacceptable to our partners in the Community

ANSWER: Britain is self sufficient in high quality light crudes, but has to import 58 million tons per year of heavier crude, on which she would presumably pay a levy.

The only special benefit to Britain would be the slightly higher price she would get from exporting her oil.

It is time anyhow that some Community policy helped automatically to redress some of the unfair inbalance of our contribution to the EEC Budget.

4. THE ARGUMENTS AGAINST THE OIL IMPORT LEVY (Cont'd)

(b) : An oil Import Levy would be inflationary

ANSWER: Taxes are not generally regarded as inflationary, since they do in fact suck purchasing power out of the economy. If the proceeds are used to invest in more efficient and relatively cheaper energy production, the levy will tend to lower costs and prices.

(c) : The oil import levy will add to the cost of chemical feed stocks, while the U.S.A. are already competing unfairly, using artificially low feed stock prices.

ANSWER : A special rebate or increased protective duty could be made for exceptional cases like chemical feedstocks.

(d) : OPEC would retaliate

ANSWER: After raising the price of crude oil from $14 to $30 per barrel in one year, OPEC could hardly complain about an oil import levy of 30C-$2 per barrel.

Furthermore, they have a long-term interest in leaving the oil underground, in order to retain their influence with the West. They should favour measures to reduce oil consumption.

If the EEC can rally the support of the other members of O.E.C.D. - U.S.A. and Japan principally - in also adopting an oil import levy, the phalanx facing OPEC would be formidable.

(e) : Due to EFTA AND Lome treaties oil imports into the EEC From Norway, Nigeria, Gabon and the U.K. would be exempt from the levy. Consequently, all the oil from these countries - which is the light variety - would find its way to the EEC. This would create a shortage outside EEC and a rise in world prices of 60 to 70 cents per barrel. The U.S.A.would therefore oppose the idea.

ANSWER: It is unlikely that Europe would import more light oil than it needed, just because it was cheaper.

(f) : The oil companies fear it would reduce consumption. "Every 10 cents on petrol cuts out a marginal user."

ANSWER: That is the whole purpose of the levy!

5. THE FOLLOWING TABLE SHOWS APPROXIMATELY THE TOTAL AMOUNT WHICH WOULD BE RAISED BY A LEVY OF 1% OR 6% AND COMPARES IT WITH THE NATIONAL NET CONTRIBUTIONS TO THE 1980 BUDGET (BEFORE THE MAY SETTLEMENT!)

	(A) Crude Oil Import 1979 Million/Tonnes	(B) Approx Value @ £100/tonne	(C) Import Levy @ 1%	(D) or 6%	(E) 1980 net contribution to EEC Budget, before settlement of rebate to U.K.	(D) + (E) Overall contribution
BELGIUM	33	£ 3.300	£ 33M	£198M	-£350M	-£152M
DENMARK	6	£ 600	£ 6M	£ 36M	-£185M	-£149M
FRANCE	124	£12.400	£124M	£744M	+£ 80M	+£824M
GERMANY	97	£ 9.700	£ 97M	£582M	+£720M	+£1302M
IRELAND	2	£ 200	£ 2M	£ 12M	-£285M	-£273M
ITALY	114	£11.400	£114M	£684M	-£565M	+£119M
LUXEMBOURG	-	-	-	-	-£190M	-£190M
NETHERLANDS	56	£ 5.600	£ 56M	£336M	-£235M	-£ 91M
U.K.	58	£ 5.800	£ 58M	£348M	+£1008M	+£1356M
	480 M/Ton.	£48.000 Mil.	£480M	£2880M		

From this table one sees that a 6% oil import levy, when taken together with member nations net contributions to the EEC budget would be a modest move in the direction of greater convergence among the member States. A specially modified arrangement would be necessary for Greece during the transition period.

6. ALLOCATION OF PROCEEDS

The important question is where do the proceeds from the levy go?

Assuming it is to be used for investment aid to projects for conversion out of oil into other forms of energy, then the biggest importers of oil - Germany, France and Italy - would be expected to get a large part of the proceeds.

Since the main objective of a Common Energy Policy is to reduce the dependence of the community as a whole on imported oil, such a distribution of the proceeds would be entirely logical.

Other member nations should also get a smaller share in order to invest in oil exploration and increased indigenous production of oil and gas from the North Sea and the Atlantic Shelf.

7. CONCLUSION.

If there is the political will among the member nations to break free from narrow Nationalism and seek a way out from the persistent oil-induced economic recession then a Community Energy Policy,financed in part by an oil import levy, would undoubtedly be one of the most effective instruments for that purpose.

APPENDIX IV

THE COMMUNITY AND THE LESS DEVELOPED COUNTRIES

It has been estimated that the World population in 2000 will be 6,500 million persons of whom 3,000 million will be resident in the developing countries.

The energy demand of the developing countries is modest compared with the energy appetite of the developed countries as the following table illustrates:

COUNTRY	ANNUAL PER CAPITA ENERGY CONSUMPTION in OE (oil equivalent)
USA	8.2 tonnes
The Community	3.5 tonnes
Japan	3.2 tonnes
The non-oil producing developing countries	0.3 tonnes (0.5) *
Zambia	0.373 tonnes
Zaire	0.055 tonnes
Rwanda	0.010 tonnes

* 0.5 toe if non-commercialised energy is included, e.g., firewood.

The Commission ** has suggested that energy demand in the developing countries could reach 0.5-0.7 toe by the turn of the century. At the World Energy Conference, Istanbul, 1978, it was reported that total energy demand by the non-oil producing developing countries would treble by 2000 and might increase by a factor of 7.6 by 2020.

Hunger in the developing countries of which there are about one hundred might be alleviated through the application of energy consuming fertilisers and the production of energy consuming protein. The alleviation of hunger, demographic factors and gradual industrialisation, might fulfil these forecasts. The rate of industrialisation will clearly exercise a significant influence on energy demand. A glance at the statistics for energy consumption in a sample of developing countries reveals how difficult it is to quantify future energy needs since each country is advancing from a low of different starting point. Thus this potential for economic growth and consequent energy consumption is large, reflected in annual per capita income in Bengladesh of $100 to $ 2880 in Singapore. Pace the World Bank, 40% of the population of the LDCs is aged less than 15 years creating an enormous future labour force. Thus growth and distribution of population will put additional strains on energy resources.

The energy needs of the developing countries even when estimated on high growth assumptions are modest relative to those of the developed world. It is therefore essential that indigenous energy resources should be harnessed so as to reduce their dependence on imported fuels. The OECD in its report "World Energy Outlook" suggested that the total energy requirements of the non-oil producing developing countries could reach 748 mtoe in 1985. The Commission has suggested consumption in the range 1,400-2,000 mtoe in the year 2000, when total world consumption might reach 17,000 mtoe.

** "Cooperation with the developing countries" COM (78) 355 final

Of the one hundred LDCs, 12 are oil exporters and the others require increasing amounts of foreign exchange to pay for their growing energy needs. Even if their commercial requirements did not increase, the continuing escalation in oil prices will affect their ability to pay, 8% of their export earnings in 1973 and 17% in 1977. The LDCs will not only have the problem of borrowing to pay oil import bills, but their nascent economies are constrained by lower economic growth in the industrialised world, with all that means for the marketability of their products and raw materials as well as for aid given by the industrialised nations.

In the present world economic conditions the Community might give renewed impetus to its relationship with partner states in the Lomé Convention through priority support for energy projects, and proposals to this end are awaited from the Commission during 1981. The general objective would be to promote and organise effective cooperation between the Community and the developing countries. The Commission believes that this policy would "avoid an intensification over the next few years of international competition for access to a scarce and essential resource, energy.

The specific objectives are concerned with the assistance that the Community, because of its technological knowhow and industrial capacity, is in a position to supply to the developing countries, notably in the fields of research and the exploitation of additional or alternative energy resources and in the field of more rational energy use".

The Commission envisages the following actions:

i. research and technological adaptation, particularly in the field of alternative energy sources;

ii. prospecting for and exploitation of energy sources in the developing countries;

iii. studies on and execution of energy production projects;

iv. technical assistance and vocational training in the energy field;

v. the promotion of energy-saving technologies.

<u>Community actions for consideration</u>

a) surveys of the partner states of the Lomé Convention to estimate potentially exploitable indigenous energy resources, to classify them, and propose priority investments for the next 20 years.

b) to cost the proposed energy projects for the next quinquennium.

c) the Commission to propose options for Community support including the following possibilities:

actions	favouring Moslem partner states in the Lomé Convention in conjunction with either individual Arab oil producing states or the Organisation of Arab Petroleum Exporting Countries.
actions	favouring all partner states in the Lomé Convention possibly in conjunction with other member states of OECD
actions	favouring all partner states in the Lomé Convention financed by increased Community revenues and by loan facilities and guarantees.

d) The Commission to negotiate investment guarantees, within the framework of the Lomé Convention, to encourage Community firms to associate with indigenous firms or state enterprises in developing local energy resources.

e) The Community and the Lomé partners to take measures to develop an economy that is not energy intensive.

APPENDIX V

THE IMPORTANCE OF THE ARAB OIL PRODUCING STATES TO THE COMMUNITY

(source of statistics: European Commission & BP)

This paper explains the need for the Community to establish a relationship with the Arab oil producing states in particular and the Islamic world in general.

The Oil Aspect

The Soviet Union is the world's largest oil producer, accounting for 18.1% of the world oil production. Soviet oil production is currently running at 12 million barrels daily, approximately 600 million tonnes annually, compared with total Community energy consumption of 985 mtoe in 1979 of which 54 % was furnished by oil. Proven Soviet oil reserves account 10.3% of the world's known oil reserves. They are estimated at 67,000 million barrels, i.e., sufficient for fifteen years' needs at the present rate of consumption.

The Arab oil producing states and Iran account for 33% of the world's oil production and 56% of the world's proven oil reserves. If the North African Arab oil producing states are included the respective estimated statistics are 39% and 59%. The member states of the Organisation of Petroleum Exporting Countries account for 48% of world oil production. So that the Arabic bloc and Iran, or the Islamic bloc, is dominant. Excepting North Sea, Nigerian and Gabon oil, the Arabic bloc and Iran are the Community's principal oil suppliers, accounting for an estimated 85% of supplies.

New proven recoverable reserves of oil are estimated worldwide at 650 billion barrels. At today's level of consumption of 63 million barrels per day the industrialised world can count on 30 years' sufficiency of oil. If this ratio of reserves to production was sustainable it would be necessary to discover a reservoir equivalent to 22 billion barrels of recoverable oil every year. Where are these discoveries ?

The problem is worsened by the continuing trend in oil consumption, forecast to reach 90 million barrels daily in 1990, when half today's remaining known reserves will have been consumed.

The Financial Aspect

The trend in oil prices is inexorably upwards:

1972	$ 1.47
1973	$ 2.21
1974	$ 9.45
1979	$ 14.20
1980	$ 28.50
1981	$ 35 - 50

The effect on the Current Account balance and Surplus of the OPEC states is shown below, expressed in billions of US $: (Source:Morgan Guaranty Trust)

	1975	1976	1977	1978	1979	1980
oil and natural gas liquids	97	112	133	127	145	200
current account surplus ..		38	35	15	17	

The oil producing states which enjoy surplus income, e.g., Saudi Arabil, Libya, can either reduce income so as not to accumulate reserves, or the industrialised world can assist the OPEC and OAPEC states to invest their reserves, at home say in non-oil energy plant, e.g., nuclear power, or abroad at a fair return and with fair security. The Community like the industrialised world as a whole cannot expect the oil producing states to deplete their oil stocks unless the Community has sufficient appreciation of the oil producing states' problems and offers incentives to maintain oil production levels.

The Political Effect of Oil Flows

In the late 1970's the Soviet Union purchased oil from Iraq probably in payment for arms, which was subsequently sold in the Community at advantageous prices. The Soviet Union also sold oil to Turkey and India at concessionary prices. More recently there have been press reports that the Soviet Union was unable to meet increased demands for oil from the east European satellite states, 80% of which are currently met by the Soviet Union. Iraq has also become less antagonistic to the West, although it is difficult to predict the disposition of Iraq after the war with Iran.

A gas-pipeline from Iran to the Soviet-Union, 1,200 miles in length, was completed in 1970, an arrangement which reportedly proved satisfactory to both states. In 1975 agreement was reached for a second pipeline in order to feed Iranian gas into the COMECON - ORENBURG gas grid to supply the Caucasus and eastern Ukraine, in exchange for Soviet gas supplies to the Federal Republic of Germany, France and Austria. The project has now become a casualty of the Iranian revolution.

Soviet oil and gas supplies have been a means of subsidising and controlling the economic development of the east European satellite states. Diminishing energy dependence on the Soviet Union will necessitate a broadening of COMECON ties with other oil and gas producing states. Oil purchased on the world market will require hard currency and financing. Unwilling either to expand her own gas and oil exports or to encourage COMECON to depend on the West for credits, the Soviet Union may turn to the Gulf States as a source of supply on dependable and reasonable terms. So far only Iran and Iraq were able to establish themselves as suppliers to COMECON together with small quantities of Kuwaiti oil.

While the world faces a problem of oil supplies within a time horizon of thirty years, the problem of the Soviet Union and its COMECON partners could emerge within a decade. The steps which the Soviet Union takes, or is encouraged to take, to develop new sources of energy will determine the extent to which the Soviet Union becomes a competitor for internationally available supplies of oil. Soviet interest in the Gulf States assumes a new and vital dimension if the Soviet energy gap cannot be met indigenously. Given Soviet political and military dominance in the region, there would be a temptation to secure oil on attractive terms through persuasion or coercion. The Soviet Union might be prepared to obtain oil from the region commercially and therefore peacefully. Even so, the Soviet Union could be expected to employ a range of tactics to achieve terms for oil supplies.

SATISFYING ARAB INTERESTS

The concept of Community or brotherhood, "Umma", is powerful in Islamic teaching and is considered by many observers to explain the overt use of religion in politics as practised by Arab and other Islamic States, from Indonesia (an oil producing state) in the east to Morocco (NOT an oil producer) and Nigeria (an oil producer) in the west. It is worth noting that world population of Moslems is estimated at 900 million. The concept explains the political and variable material concern for the Palestinian Arabs in the light of the creation of the state of Israel. It also explains the concern of the OAPEC states in particular that the industrialised world should increase their aid to the less developed countries. An examination of the aid given by the OAPEC states reveals that it is diverted principally to the less developed Islamic countries and to countries with pagan societies which might be receptive to Koranic teaching. The first Arab institution for aid to the LDCs was the Kuwait Fund for Arab Economic Development, established 1961. Considerable aid is given on a bilateral basis.

In the energy sector the following considerations merit examination so that with other sectoral policies Arab interests and Community objectives might be satisfied:

a) to encourage the development of all alternative sources of energy in the Arab States, e.g., solar energy, implantation of nuclear power; techniques for the improved recovery of oil might be developed jointly by the Community and its Arab partners.

b) to develop a new relationship between the Arab states and the Community capable of ensuring more rapid economic and social growth in the partner countries as well as in the Community.

   e.g.: investment by the Arab States in new energy generating techniques from development through to commercialisation; training of Arab engineers and scientists in Community academic, research and industrial establishments

c) Trilateral development involving the Council, Commission and Community financial institutions and firms with Arab governmental private and inter-Arab financial institutions in order to place investments in the less developed countries. Investments with fair returns for the Community's Arab partners and for the host developing country would present a more balanced pattern of cooperation harnessing the Community's managerial and technological skills in its implementation , and it would secure income for the Arab partners for the future when oil revenues begin to fall. The slow pace of such investments which because of their nature would take a long time to materialise would hopefully pave the way to other investments and hence increased trilateral cooperation. Such cooperation could improve the sophistication of Arab financial aid and extend the scope of the Community's aid programmes, thus hastening the recipient nations' economic progress to a more developed state.

d) to develop regular political consultations between the Community and the Arab oil producing states embracing matters of mutual interest and reflecting a desire for a firm customer-supplier relationship; in addition to mutual concern for the development of the LDCs there is a matter of current and long term mutual interest in the security and surveillance of oil supplies and shipping routes.

Energy

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SMP

THE MINISTER OF STATE
Hamish Gray Esq MP

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1P 3HE

18th September 1980

Dear Geoffrey,

COMMUNITY PROJECTS IN THE HYDROCARBONS SECTOR (CPHS) SCHEME

Thank you for your letter of 10 September to David Howell agreeing to his proposals to approve a further round of support for the CPHS scheme and to approve the Commission's report on the scheme.

I can assure you that there is currently no expectation of significantly increased levels of CPHS funding or of a reduced UK share of receipts; and there is no reason to believe that approval of this round of the scheme, or of the Commission's report, will lead to either significant increases in CPHS funding or reductions in the UK's share of receipts. Nevertheless, if either of these dangers were to arise, we shall reconsider our position.

I am conscious of the need to avoid additions to planned public expenditure as a result of our efforts to increase the share of UK receipts from the scheme. This point will be borne firmly in mind in the discussions with BNOC.

Ian Gilmour in his letter of 1 September hoped that publicity could be given to the CPHS scheme. This Department will shortly be issuing a new edition of the explanatory booklet about the scheme and placing an advertisement in the Financial Times to publicise it. Publicity will also be given to the success of British firms in the current round, once the Council has approved it.

I am sending copies of this letter to the Prime Minister and to the Lord Privy Seal.

Yours ever

Hamish

19 SEP 1980

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Energy

10 DOWNING STREET

From the Private Secretary

11 September 1980

Community Projects in the Hydrocarbons Sector (CPHS) Scheme

The Prime Minister has seen your Secretary of State's letter to the Foreign and Commonwealth Secretary of 21 August on this subject, together with the subsequent letters from the Lord Privy Seal and the Chancellor of the Exchequer. She is content that we should not oppose continuation of the Scheme.

I am sending copies of this letter to Stephen Gomersall (Foreign and Commonwealth Office) and John Wiggins (HM Treasury).

M. O'D. B. ALEXANDER

Julian West, Esq.,
Department of Energy

CONFIDENTIAL

Rd.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 September 1980

The Rt. Hon. David Howell, MP.,
Secretary of State for Energy

Dear David

COMMUNITY PROJECTS IN THE HYDROCARBONS SECTOR (CPHS) SCHEME

I have seen your letter to Peter Carrington of 21 August about the attitude we ought to take to the Community Projects in the Hydrocarbons Sector Scheme. I have also seen ~~Peter Carrington~~'s reply of 1 September giving his support to the Scheme.

Ian Gilmour's

I am generally content with the approach you propose. The prospective net benefit to the UK in resource terms, though small, is to be welcomed. But I regret that the benefit will not be reflected in lower public expenditure since the money goes primarily to the private sector and does not contribute towards reducing existing public expenditure programmes. I am nevertheless content that you should approve the round currently under consideration, and provided that you are satisfied with the approach in the Commission's report on the future of the Scheme that your Department should support it as you propose. I take it, however, that this is not expected to lead to significantly increased levels of CPHS funding in the future, or to a reduced expectation of the UK's share of receipts. I endorse your conclusion that the balance of advantage to the UK should be kept under review; presumably an opportunity to reconsider the position arises with each successive round of the scheme.

I am also in sympathy with your efforts to increase the degree of successful take-up by UK industry. I am sure you will, however, be conscious of the need not to add to planned public expenditure through these efforts, whether in your Department or at BNOC.

I am sending copies of this letter to the Prime Minister and the Foreign and Commonwealth Secretary.

GEOFFREY HOWE

Energy

Foreign and Commonwealth Office
London SW1

1 September 1980

NBPM

Dear David,

COMMUNITY PROJECTS IN THE HYDROCARBONS
SECTOR (CPHS) SCHEME

Thank you for your letter of 21 August to Peter Carrington. We agree with the line you propose.

At a time when we are looking for Community schemes which will bring us net financial benefit on a long term basis and which are of practical advantage, we have a clear interest in making the most of the CPHS scheme. It could be of interest also in the context of restructuring the Community budget: while modest in scale, it may provide pointers to the kind of sensible and worthwhile Community expenditure in areas other than agriculture for which we will need to work.

In the light of our decision to take such opportunities as are available to draw public attention to the advantages of Community membership, we hope that you will be able at the appropriate moment to give some publicity to the benefits of the scheme.

We take your point about the French success in coordinating applications for funds, and hope that BNOC will be able to help in the way you suggest. If not, we should perhaps give further thought to ways of identifying likely recipients of funds and stimulating and coordinating UK applications.

/I am

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank

I am sending copies of this letter to the Prime Minister and to Geoffrey Howe.

Yours ever,

Ian

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Prime Minister

(Letter attached.)

Both the Chancellor and the L.P.S. agree with the Secretary of State for Energy that this scheme (details at A) should continue even though it involves some public expenditure. There is a net resource benefit. Agree?

Rt

Yes mt

01 211 6402

The Rt Hon Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs

August 1980

Dear Peter

COMMUNITY PROJECTS IN THE HYDROCARBONS SECTOR (CPHS) SCHEME

I have been considering what attitude we ought to take to the Community Projects in the Hydrocarbons Sector (CPHS)scheme, set up by Council Regulation 3056/73 of 9 November 1973. The Commission has recently reviewed the scheme, with the help of experts from Member States, and has concluded that the scheme should continue. It recommended however that, because of advances in oil technology since 1973, priority areas should be changed for future rounds of funding, and also that the selection criteria should be made stricter. The report is to be considered by the High Level Energy Group and then by the Energy Council.

A. The scheme provides for Member States to decide by unanimity on subsidies by the Commission for up to 40% of the cost of projects to develop new technology in oil and gas exploration, production, transport and storage; the subsidies are repayable if the project is exploited commercially, and interest is payable on any sums outstanding after the date of commerciality. In the 5 rounds of the scheme to date, about £95m has been awarded, of which about £27.5m (29%) was awarded to UK firms - a substantial net benefit to the UK. I attach a table showing the UK return in successive rounds.

HMG has consistently supported the scheme since its inception. Other Member States have done so as well, even though two of them - Denmark and Luxembourg - have received no CPHS money at all. France is strongly in favour of the scheme. Germany, though somewhat cool about the scheme has not sought to oppose it.

British recipients of CPHS money have been principally BP and a number of equipment and service suppliers, some of them fairly small companies. Some of BP's projects would have gone ahead without CPHS money; but for equipment and service suppliers, who do not benefit from rising oil prices and who often have difficulty in financing R and D, the reduction of financial risk as a result of receiving CPHS money is usually the crucial factor in deciding whether R and D projects submitted will go ahead. The CPHS scheme forms a useful adjunct to my Department's support through the Offshore Energy Technology Board for R and D in this area.

(2)

The value of the scheme is, like that of all R and D, difficult to assess, particularly as the first payments of subsidy were made only in 1975. Some of the projects approved for funding in the first round were for techniques to be used in water depths of 1000 m, which is still beyond current operational depths. However, of the 17 projects which received funds in Round 1, 5 have so far led to commercial exploitation and repayments of support have been or will be made to the Commission. As is to be expected, a somewhat lower proportion of projects in later rounds have so far been commercialised. At a symposium held by the Commission in April 1979 to review the success of the scheme, the consensus was that the results of projects supported by the scheme had made a significant contribution in at least four areas, namely enhanced oil recovery; development of new process equipment (of particular importance to marginal fields); deep water drilling technology; and deep water pipe-laying techniques.

Although expenditure on the CPHS scheme adds to Government expenditure, and abolition of the scheme would produce some small staff savings, I believe that we should not oppose continuation of the scheme, for the following reasons:

(a) The UK receives a net benefit from the scheme; this adds to UK GNP.

(b) The scheme enables firms to undertake R and D which they would not in general have been able to afford otherwise; this reinforces their competitive position, and contributes something to the energy supplies both of the UK and of the rest of the Community.

(c) With the UK's energy endowment it would be difficult to oppose continuation without creating the impression of acting like the dog in the manager.

(d) The Commission and all other Member States support the scheme, with varying degrees of enthusiasm. It would therefore precipitate a major row in the Community if we sought to abolish the scheme, particularly as it is a relatively small scheme (currently about £15m per round for all recipients).

The balance of advantage should however be kept under review. In accordance with this line, I intend to approve the round currently under consideration, from which UK firms stand to gain 26% of the support. The Commission's report on the scheme reaches sensible conclusions and I also intend therefore to support it when it comes before an Energy Council.

The French are more successful than us in getting CPHS funds and I hope we can increase the share taken by UK firms to something nearer the French level. The French succeed because they have a special centralised organisation called GERTH, owned by Elf, Total and the Institut Français du Pétrole, which generates practically all French applications for CPHS support. There is no equivalent of GERTH in Britain. Instead my Department has had to encourage applications by producing a booklet on the scheme which is sent to about 700 firms at the start of each round; by inserting an advertisement in the Financial Times each round; and by individually approaching selected firms. The UK share could probably be increased if an outside agency like BP or BNOC helped by identifying opportunities for CPHS projects in the UK, and assisting companies in formulating their submissions. BP has been approached about this but has declined to help. I have therefore asked my officials to explore whether BNOC could help, despite having only a tiny R & D staff at present. Providing it were made clear that BNOC's help was entirely optional there is no reason to think the oil industry or the suppliers would be opposed.

I am copying this to the Prime Minister and the Chancellor of the Exchequer.

Yours ever

David

D A R Howell

ANNEX

SHARE OF UK IN SUCCESSIVE ROUNDS OF THE CPHS SCHEME

Round	Date of Council Decision	% of funds allocated to UK firms	% of funds taken up by UK firms (ie. taking account of projects withdrawn after Council Decision on support)
1	19 Dec 1974	17.3	13.5
2	4 May 1976	39.2	39.9
3	25 Oct 1977	30.6	24.2
4	30 Oct 1978	32.6	25.9
5	9 Oct 1979	23.4	23.4 (provisional)

The Commission proposal in the sixth round which is currently under consideration is that UK firms should receive 26% of the support. Thus in every round except the first our return, or prospective return, has been considerably better than a juste retour (16-17%).

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cc HMT
LPO
LPSO
MAFF
TRADE
LOD
ENG
CO

Attorney General

cc Energy, May 79
European Energy

Original
Euro Pol, Budget
Pt 7

10 DOWNING STREET

From the Private Secretary

24 March 1980

Energy

Presentational Statement on Energy for possible use in the Community Budget Negotiations

As you know, officials met on Friday afternoon to reconsider the text of the presentational statement on energy in the light of the Prime Minister's comments on the draft enclosed with the Foreign and Commonwealth Secretary's minute of 18 March to the Chancellor of the Exchequer. The officials produced a new draft which was submitted to the Prime Minister over the weekend.

The Prime Minister has approved the latest draft with one or two minor amendments. I enclose the text.

The Prime Minister has not yet taken a view as to whether or not any use should be made of the agreed text during her meeting with Chancellor Schmidt at the end of this week. Her decision will obviously depend in part on whether or not the European Council is postponed.

I am sending copies of this letter and enclosure to the Private Secretaries to members of OD(E), to Bill Burroughs (Department of Energy) and to David Wright (Cabinet Office).

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

TPL

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F. R.

Original Euro Pol
Budget Pt 7

PRESENTATION STATEMENT ON ENERGY IN THE CONTEXT OF THE COMMUNITY BUDGET NEGOTIATIONS

Points to make

1. Energy is of the greatest concern to all of us. It is a key international economic issue. The Community must find an adequate response to the need to conserve energy, develop alternative sources to oil, and reduce oil imports and consumption. The UK's relative strength in energy in no way sets us apart from these concerns.

2. Each member state's resources of primary energy - coal, gas, oil or nuclear power - play a major role in achieving overall energy policies which will assure the Community's security. The UK is already doing much. About a quarter of total Community investment in energy over the last five years has been made by the UK.

3. On coal, we are now investing some £600 million a year, approaching half of total Community investment in coal capacity. The gas fields of the Southern North Sea have been developed to the point where we no longer have to compete on world markets for the equivalent of over 30 million tonnes of oil a year.

4. And there has been the success of the development of the North Sea oil resources. £15 billion invested to date and production up from 1 million tonnes in 1975 to

/ 75 million

76 million tonnes last year. We are planning for a vigorous exploration programme as the basis for the future development of North Sea oil.

5. We have done this because it is in our national interest, but it is also in the increasing interest of the Community as a whole. For example, from 1978 to 1979 the volume of North Sea oil supplied to the other member states doubled to 22 million tonnes. This year it will be higher still. Companies of other member states active in the North Sea hold licences and have a stake in nearly half of the fields now in production or under development.

6. The UK is fully conscious that our relative strength in primary energy resources imposes responsibilities as well as giving us advantages. We will give full weight to the Community dimension in reaching our decisions. We will work with you on ideas put forward by the Commission, and on the development of a Community position on international energy discussions.

7. On coal, we believe there is scope for the Community to encourage more investment. On gas, we are ready to facilitate the transmission of Norwegian gas through our country to the Continent. In the development of North Sea oil, Community companies will no doubt continue to take advantage of the arrangements for licensing exploration and development. We shall be ready to have discussions with interested companies to this end.

/ 8. We are

8. We are maintaining the existing guidelines about sales of North Sea oil being made to IEA and Community destinations. This provides our partners with a valuable assurance of supply. When oil supplies are tight, but not yet requiring the application of existing Community rules for a situation of supply crisis, we will take account of the interests of the Community as a whole to the fullest extent we can. In such circumstances we would consider the scope for increasing North Sea oil production within the limits consonant with good oilfield management, and the need to avoid wasting scarce resources.

9. The UK shares the interest of Community purchasers in avoiding excessive increases in world oil prices, and maintaining an orderly market: we will continue to seek to ensure that our North Sea oil prices will follow and not lead world market prices for comparable crudes.

10. Finally, we share with our partners the determination to see nuclear energy further developed in safe and environmentally acceptable conditions. The JET experiment at Culham is a vital contribution to that end.

Original
Euro Pol Budget
Pt 7

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PRIME MINISTER

Presentational Statement on Energy

Following your discussion with Clive and me this morning, we have attempted a redraft of the proposed statement on energy. I attach a new text. I hope that it takes account of the points you had in mind.

Before we commenced this new draft a minute was received from the Secretary of State for Energy stating his agreement to the previous text (copy attached) as amended by the Foreign and Commonwealth Secretary's suggestions which you saw yesterday. I assumed that you would nonetheless wish us to produce a new text. I imagine that Mr. Howell would find the new text equally if not more acceptable than the old one.

I have sent a copy of the new text to the Foreign and Commonwealth Secretary but to no other Minister at this stage.

This is much better. It is so much more vigorous because it is practical.

Have we by any chance sold oil forward to any community countries? If so perhaps we could add that, to the section on security of supply.

And do we know how many contracts etc. already operating in the North Sea? M.T.

21 March, 1980.

Energy

Original filed on: Euro Pol: Community Budget: Pt 6.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
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01 211 6402

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and Commonwealth Affairs
FCO
Downing Street
SW1A 2AL

19 March 1980

TPM from file - with MODEA?

Dear Peter

Presentational Statement on Energy for possible use in the Community Budget Negotiations

Thank you for sending me a copy of your minute of 18 March to Geoffrey Howe.

I still have the gravest doubts about using this statement. It is intended to be purely cosmetic. It will either be exposed as such thus damaging our prospects of a satisfactory settlement on the Budget. Or it will be turned into a starting point for negotiations in which we will be pressed for concessions of substance at high cost to our ability to use our oil resources to the maximum national advantage. I believe a better course would be to prepare a really good statement of what we have already done to help our partners in the oil and energy sectors. This would provide the other participants at the European Council with the evidence they need to show to their own peoples that our approach is Community minded and helpful to them.

If nevertheless the statement is to be included in the briefing for the European Council I should like to press for the deletion of the second sentence of paragraph 4 on long term oil supply contracts. Nearly one third of our oil is in the hands of companies who left to their own devices will not give to the UK any preference in its disposal. A substantial proportion is committed to export beyond the practical possibility of recall in a sub crisis. The encouragement of long term contracts will make this situation worse. The result will be that even when we achieve net self sufficiency we will not be able to ensure UK supplies in a sub crisis. That is not a situation which we could defend at home. (I enclose a note by my officials which explains in more detail why net self sufficiency will not by itself be enough to ensure UK security of supply).

I should also like to stress that any use of the statement must be very carefully timed. It is not negotiable and we cannot afford to use it unless and until we are confident that it will assist in bringing the negotiations to a successful conclusion. This means that it may not be appropriate for use at this Council. It follows that if we are to try it out on Chancellor Schmidt, this should be done only in the margins of the final negotiating meeting, not before. None of us will know at the time of the Prime Minister's talks with him on 28 March whether we shall in fact wish to use it at the Council.

I shall be writing separately on the suggestion about Seventh Round licensing made in the letter of 17 March from John Nott's Private Secretary to mine.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer, our colleagues in OD(E) and to Sir Robert Armstrong.

Yours ever

David

D A R Howell

NET SELF-SUFFICIENCY AND UK SECURITY OF SUPPLY

Insofar as the public is aware of the facts on UKCS production, it has registered that 1980 is the year in which we attain net self-sufficiency. This creates an expectation that the UK will not in any circumstances go short of oil.

2. There are two fallacies in this, derived from

i) questions of oil quality;
ii) the ownership of UKCS crudes.

Oil Quality

3. A more sophisticated understanding of the concept of net selfsufficiency recognises that there are different grades and qualities of oil and that it would not be economic to use all the UKCS oil produced in UK refineries. Nor would such usage produce all the oil products needed in the UK (eg. lubricating oils). (In practice, about half the UKCS crude produced can currently be economically used in UK refineries). Net self-sufficiency is therefore not a simple question of meeting UK crude requirements by using all UKCS crude in the UK. There will be some exports of UKCS crude and some imports of other crudes.

Oil Ownership

4. Linking exports and imports through swap deals would seem to be the obvious way to deal with the quality consideration while preserving UK security of supply. But this ignores the realities of present ownership of UKCS oil. Once a production licence has been granted, it is not "our" oil in a national sense. It is companies' oil. Some companies have no special interest in supplying the UK and may, indeed, have Corporate priorities which lead them to export all their oil.

5. Around 15% of UKCS production (after rights to participation oil have been exercised) is in the hands of traders or companies without UK refineries who have no interest in firm commitment of supplies to the UK. We must regard their oil as not securely available to the UK.

6. A further quantity of about the same size is in the hands of US multinationals who may use some of their oil in the UK, but whose basic objective is to maximise Corporate profitability: in times of shortfall of supply, they have normally interpreted their Corporate interest as requiring them to spread their available supplies, whatever their source, equally between all their affiliates, abroad as well as in the UK.

7. The table attached shows the extent to which ownership of our oil over the next four years is in "insecure" hands. Over the period, the share of the traders falls, but the share of the multinationals rises. Nearly a third of our oil remains in the hands of companies who, unless we can exercise some leverage over them, will not give the UK any preference in disposing of UKCS oil.

8. Further, to the extent that BNOC sell part of the oil at their disposal to multinationals who refine in the UK but in a shortage share their total resources as described in paragraph 6, even this oil makes no contribution to improving UK security of supply.

Delusion of Security

9. In fact the concept of security through net self-sufficiency is a delusion. Even when we are producing as much oil as we consume in the UK, as much as half of our requirements could remain unsecured. Thus a 7% shortage world wide could lead to a 3.5% shortfall overall here. Because it would fall unevenly between companies, the effect on the UK could be much more severe for particular UK consumers - certainly sufficient to cause serious supply difficulties in the market eg the return of petrol queues.

Need for Action

10. Legislative constraints on disposal of our oil are not practicable - not least because of EEC requirements. For this reason the Department of Energy is seeking to

negotiate commitments from those companies currently exporting UKCS crude which will diminish, if not eliminate, this vulnerability. One means is an undertaking that UKCS oil will not be exported except on a swap basis. That undertaking has been secured from a number of UK producer/refiners. It cannot, however, be secured from a number of companies with no stake in UK refining or marketing. Other, more sophisticated, undertakings are therefore required if UK security of oil supply is to be assured, including better assurances from many of BNOC's preferred customers.

Obstacles Created by new European Gestures

11. It is against this background that one must judge the effect of new declarations about supply commitments to Europe. The fact that there will always be some export of UKCS crudes has led to the conclusion in some parts of Whitehall that there is European mileage to be made here without any cost to the UK. It is argued that since these exports will occur in any case, to convert them into long term commitments will involve no loss to the UK and will win us real credit in Europe.

12. In fact, the cost of any such commitments will be real. At present, companies generally feel obliged to justify their disposal pattern. This gives the Department the opportunity to apply pressure. If companies could point to a statement relaxing the Government's expectations on long term export supply commitments, that opportunity would be lost. A "cosmetic" statement on long term contracts to the Community will in reality be a substantive loss to the UK.

CRUDE OIL BALANCE 1980 - 83 (Millions of tonnes)

CRUDE BALANCE

	1980	1981	1982	1983
a. Forecast UKCS Production (unrestricted)	84.1	97.6	106.2	111.0
b. UK Refinery Intake (low demand case)	93.0	93.6	95.0	97.0
c. Net UK Balance (a-b)	(8.9)	4.0	11.2	14.0

DISPOSITION OF UK PRODUCTION

	1980	1981	1982	1983
d. Traders and Non-UK Refiners	14.2	13.8	12.9	11.7
e. Multinationals who pool their production in times of shortage	10.5	15.5	19.4	22.9
f. Total private sector oil not secured to UK (d+e)	24.7	28.3	32.3	34.6
g. BNOC)	17.6	21.3	23.4	23.1
h. Royalty)	10.4	12.1	13.2	13.8
j. (g+h)	28.0	33.4	36.6	36.9
k. Of which currently secured to UK *	10	10	10	10
m. Oil secured by UK refiners to UK	31.4	34.9	37.3	39.5
n. Oil secured to UK (k+m)	41.4	44.9	47.3	49.5
p. Dependence on insecure supplies (b-n)	51.6	48.7	47.7	47.5
q. Percentage of UK supply unsecured (100p/b)	(55%)	(52%)	(50%)	(49%)
r. Loss to UK supplies from a 7% world-wide shortage (7q/100)	3.9%	3.6%	3.5%	3.4%

* There may be scope to increase this figure in future years.

original filed on:-
Euro Pol: Community Budget Pt 6.

Prime Minister
This is the latest text on energy.
[initials] 19/3

FCS/80/61

CHANCELLOR OF THE EXCHEQUER

PRESENTATIONAL STATEMENT ON ENERGY FOR POSSIBLE USE IN THE COMMUNITY BUDGET NEGOTIATIONS

1. At its 7th meeting on 10 March when the OD Committee under the Prime Minister's chairmanship discussed the Community budget problem and the forthcoming meeting of the European Council, it decided that OD(E) should revise the draft statement which we had discussed on 14 February.

2. I now enclose a revised draft prepared by officials which takes account not only of the OD discussion, including the suggestion that other aspects of energy besides North Sea oil should be mentioned, but also of the subsequent discussion of depletion policy in E Committee. I hope we can now all agree that it should be included in this form in the briefing for the European Council and the Prime Minister's forthcoming talks with Chancellor Schmidt. I shall assume so unless I hear to the contrary by Wednesday evening.

3. I am sending copies of this Minute to the Prime Minister, the Secretary of State for Energy, our colleagues in OD(E), and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

18 March 1980

CONFIDENTIAL

PRESENTATIONAL STATEMENT ON ENERGY IN THE CONTEXT OF THE COMMUNITY BUDGET NEGOTIATIONS

1. Energy is a matter of the greatest concern to all of us. It is one of the key international economic issues of our time. We must together find an adequate response to the need to conserve energy, to develop alternative sources to oil and to reduce oil imports and consumption if we are to ensure the prosperity and security of our people in the years ahead. The United Kingdom's relative strength in energy in no way sets us apart from these concerns. We share the determination to work with our partners to develop the policies necessary to promote the efficient use of energy within the Community and to reduce its dependence on oil imports. We shall contribute in this spirit to further work on any ideas put forward by the Commission and to the development of a Community position in international energy discussions.

2. Naturally each member state's resources of primary energy - whether it be coal, gas, oil or nuclear power - have a major role to play in achieving overall energy policies which will assure the Community's security. Decisions on the development of those resources are for the Government concerned. We in the United Kingdom are fully conscious of the fact that our relative strength in this field imposes responsibilities as well as giving us advantages and we will give full weight to the Community dimension in reaching our decisions. On coal, we believe there is scope for the Community to encourage more investment. On gas we stand ready to facilitate the transmission of Norwegian gas through our country to the Continent. And we share with our partners the determination to see nuclear energy further developed in safe and environmentally acceptable conditions. We are ready to take part where appropriate in joint action to that end.

3. In 1979, 22 m tonnes of North Sea oil, nearly one third of total production and over half of total exports, were exported to the other Member States. Production will continue to rise over the next few years as the £15bn so far invested in exploration and development continues to pay off and we are confident that for a number of years to come North Sea oil will provide a useful element of security for the Community's energy supplies over the period when we foresee that dependence on OPEC will remain high. We welcome the involvement of Community companies in the North Sea and we hope that they will continue to take advantage of the arrangements for licensing, exploration and development which give Community companies full opportunity of participation. We shall be happy to have discussions with interested companies to this end.

4. We are maintaining the existing guidelines about sales of North Sea oil being made to IEA and Community destinations. If companies operating in the North Sea wish to enter into long-term oil supply contracts with other companies within the Community, we should be very ready to consider the situation with them. When oil supplies are tight, but not yet requiring the application of existing Community rules for a situation of supply crisis, we will take full account of the interests of the Community as a whole to the fullest extent that we can. In such circumstances we would consider the scope for increasing North Sea oil production within the limits consonant with good oil field management and the need to avoid wasting scarce resources.

5. The United Kingdom shares the interest of Community purchasers in avoiding excessive increases in world prices and maintaining an orderly market: we will seek to ensure that our North Sea prices will follow and not lead world market prices for comparable crudes.

cc PS/CST
PS/FST
Sir D Wass
Sir K Couzens
Mr [illegible]rie
Mr [illegible]arratt
Mr F Jones
Mr Hancock
Mr Britton
Mrs Hedley-Miller
Mr Monck
Mr Ashford

Subject in Euro Pol: Pt 6 Budget

MO/BA seen

Mrs Lomax
Mr P G Davies
Mr Wicks
Mr Mower
Mr Thomson
Mr Ridley
Mr Cropper
Mr Cardona

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

6 March 1980

Dear Paul,

NORTH SEA OIL AND THE COMMUNITY BUDGET

Treasury Ministers have been considering for some weeks the case for publishing an article to underline the strength of our arguments for relief from the burden of our net contribution and the unreasonableness of remarks made by other Member States about North Sea oil. A copy of the latest draft of this article is attached. As you will see, the main new point is a comparison between the financial effects of the CAP and what the effects would be if the Community treated oil in the same way.

The Chancellor has concluded that this is not a good time to publish such an article. Its value would be as a robust counter to any intemperate attack on our case. Between now and the European Summit at the end of March we shall be trying to build up sympathy for our case and the tone of the article is somewhat too aggressive for that purpose. Furthermore comment by the other Member States on North Sea oil seems to have abated and it might be unwise to stir up that controversy again.

/The Chancellor

P Lever Esq, FCO

The Chancellor therefore suggests that the article should be added to our collection of briefs on Community Budget issues ready to be drawn upon if an appropriate occasion should arise in the future.

I am sending copies of this letter to Michael Alexander, Michael Richardson, Bill Burroughs, Garth Waters, Richard Prescott and David Wright.

Yours sincerely

John Wiggins

A J WIGGINS
Private Secretary

NORTH SEA OIL AND THE COMMUNITY BUDGET

The time has come to set the record straight on the true nature of the relationship between North Sea Oil and the British case for a substantial change in the European Community Budget arrangements.

The Government has stressed on a number of occasions that North Sea oil, although undoubtedly welcome, does not transform our economy nor do away with our economic problems. In 1979 oil production contributed only about 2 per cent to our national income. At peak production in the mid-1980s this figure will be larger but oil will still be a small sector of our economy. We will only solve our problems if we can improve the productivity of the rest of the economy, the other 98 per cent.

This message is widely understood at home. But abroad - and in particular in other Community countries - the significance of North Sea oil is often absurdly exaggerated. It is suggested, for example, that every time the price of oil goes up Britain benefits.

We do not. We are still net importers of oil and when the oil price goes up our balance of trade in oil products gets worse, not better. Furthermore, higher oil prices depress the world economy and our export markets thus causing a loss of output in the UK. Yet we are still told that recent increases in the price of oil weaken our case for the change in the Community Budget arrangements.

There is no logic in such arguments. Our case is that we are obliged by the present Community arrangements to transfer a large and growing stream of income to other Community countries. If we were among the richest Community countries this might be fair enough. Bur we are not among the richer countries. Our GNP per head, however the calculation is made, makes us only the seventh richest, in other words the third poorest, member of the Community. Yet we are faced with the prospect of making the larget net contribution to Community finances.

These calculations of national income per head take full account of the benefits of North Sea oil. It is therefore untrue that North Sea oil invalidates our case for changes in the Community Budget arrangements. There are no rational grounds for focussing attention on one sector of the economy. Every economy has its growth sectors.

Indeed, to single out North Sea oil in the context of the Community Budget is especially anomalous because the present Budget arrangements give a special privilege to those with a comparative advantage in another natural resource, namely agricultural land. Those who say that our case on the Community Budget is unfounded might like to think what would happen if the Community treated oil in the way it treats food.

There have been a number of reports that the Commission are studying the idea of an oil or energy import levy as a way of raising finance for the Community and encouraging conservation. I do not propose to comment on such possibilities here. If the Commission come forward with ideas, we shall of course examine them in a constructive spirit; and we shall look for an outcome which will promote Community objectives and the interests of member states. But however helpful such ideas may be, they can have no relevance to our immediate Budget problems. As the Commission have made clear, any oil levy scheme would take some years to implement and could have no early effect on the existing financial arrangements.

But let us suppose, for the sake of argument, that there was in fact a Community oil policy with the same key feature as the Common Agricultural Policy: an artificially-determined price enforced through a machinery of import levies and export restitutions and massive expenditure programmes to the benefit of oil producers.

The Community price for oil would thus be maintained at a level higher than the world market price. Community countries that produced oil would obviously benefit from the higher prices. They would sell oil at higher prices to their Community partners. And they could also expect to gain a further advantage under the Community Budget arrangements. Levies would be charged on oil imports from outside the Community and countries importing oil would pay over the proceeds of those levies to the Community. Countries that imported no oil from outside the Community would pay nothing. Countries that relied exclusively on imports would pay a very great deal. And on the expenditure side an oil producing country would gain from direct expenditure to benefit producers and also from the restitutions on oil exported outside the Community. Thus on both counts any country that was self sufficient in oil would do very nicely indeed out of the Community arrangements.

Clearly any such Community oil policy would produce dramatically favourable consequences for an oil-producing state such as Britain. Countries which were heavily dependent on imported oil would by contrast lose out substantially. The extra money that their consumers would pay for their oil would pass either to the Community Budget or to oil-producers in other Member States. And of course they would get none of the benefit of the Community expenditure whether to the direct advantage of producers or on export restitutions.

Such a policy, however, might not commend itself to other, non oil-producing, member countries. Some might even consider it absurd. Yet the plain fact is that the Community already possesses, in the Common Agricultural Policy, a policy which has all the effects I have been describing. It brings enormous advantages to Community countries which are net exporters of food. It bears very heavily on those which are not. And when the latter include two countries, the UK and Italy, which are amongst the poorest in the Community, then it is surely palpably inequitable.

It is no answer to say the objectives of the Common Agricultural Policy are worthy ones. That it has helped to free the Community from an unhealthy dependence on imported food. That it has thereby reduced the risks to political stability that would have resulted from a fevered scramble for the world's scarce food supplies.

All these things may indeed be true. But the argument for an effective Community oil policy is at least as compelling. It is oil not food, that is now in desperately short supply in the world. It is its dependence on imported energy, not on imported food, that the Community must be most concerned to reduce. A high Community price for oil would help to reduce that dependence, to encourage conservation and to stimulate the development of new sources of energy.

An incidental effect of such a policy would be a significant gain to the UK. Just as the food-producing Member States have secured a special advantage from the Community's pursuit of its agricultural objectives, so Britain would benefit from its pursuit of its energy objectives. The one would be as legitimate as the other. Anyone who argues that it would be unfair for the Community thus to reward a country for its possession of a valuable, but wasting, natural endowment, might like to dwell on the analogy with a CAP - bearing in mind, of course, that "green oil" unlike black oil is inexhaustible. It is just conceivable that this might lead them, not only to abandon the argument that the possession of North Sea oil - in the absence of such a policy - undermines the UK case against the present Community Budget arrangements: it might even lead them to question, the nature of the CAP itself, which lies at the root of that problem.

MASTER

Original filed Euro Pol - Budget Pt5.

CONFIDENTIAL

NB Remainder of are filed Energy May 79 (Euro Energy Policy)

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(2)

OD(E)(80) 4th Meeting

COPY NO 2

~~Prime Minister.~~

You may like to read the attached paper as well as the minutes.

MAP 15/2

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

SUB-COMMITTEE ON EUROPEAN QUESTIONS

MINUTES of a Meeting held in the Large Ministerial Conference Room, House of Commons on THURSDAY 14 FEBRUARY 1980 at 5.30 pm

---

PRESENT

The Rt Hon Lord Carrington
Secretary of State for Foreign and Commonwealth Affairs (In the Chair)

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon Sir Michael Havers QC MP
Attorney General

ALSO PRESENT

The Rt Hon David Howell MP
Secretary of State for Energy

SECRETARIAT

Mr M D M Franklin
Mr D M Elliott
Mr N C R Williams

F.a. MAP

That statement would be disastrous for Britain and I am not prepared to make it. The idea that we should have to sacrifice our main asset to secure some of our own money back is one that may appeal to the Foreign Office but it doesn't to me.

Wouldn't it have been courteous to say the least to have come to me first? MT.

CONTENTS

CONFIDENTIAL

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

Pma – 5/xii

The Rt Hon D A R Howell
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London, SW1P 4GJ

5 December 1979

Dear David.

COMMUNITY COKING COAL SCHEME

Thank you for copying to me your letter of 26 November to Peter Carrington in which you sought agreement on the line to be taken on the above scheme at the next Energy Council.

I agree with the line you propose, subject, of course, to whatever policy we decide to pursue in the light of Dublin.

I am copying this letter to the recipients of yours.

Yours ever

John

JOHN NOTT

CONFIDENTIAL

Energy

10 DOWNING STREET

From the Private Secretary

Sir Robert Armstrong

Energy Council Meeting - December, 1979

You minuted to me on 3 December on this subject. Your minute was a comment on a minute from the Energy Secretary which has never been received here and which, I think, did not issue.

Before your minute came to hand, I had already consulted the Prime Minister about the coking coal decision. She had agreed, somewhat reluctantly, that the existing coking coal aids decision should be extended for a further two years. In conveying the Prime Minister's decision to the Department of Energy, I made the point in the second part of paragraph 4 of your minute.

As regards paragraph 2 of your minute, which deals with the breakdown of the Community's import target in 1980, I think the Prime Minister's reaction to any proposal that the UK should depart from the previously agreed net import figure is sufficiently predictable to make it unnecessary to consult her!

M. O'D. B. ALEXANDER

4 December, 1979.

TCR.

CONFIDENTIAL

Ref: A0843

PRIME MINISTER

ENERGY COUNCIL MEETING - DECEMBER 1979

not issued

The Energy Secretary has minuted to you seeking agreement for the line to be taken on the principal agenda items at tomorrow's Energy Council.

2. Subject to a French reserve there is general agreement within the Community on national figures to break down the Community's 472 million tonnes import target in 1980 (including a United Kingdom net import target of 12 million tonnes). The French reserve is on the grounds that some Member States' targets imply less demand restraint than others and a lower United Kingdom target (implying higher UKCS production) could enable the Community's global target to be reduced. The Energy Secretary seeks agreement that if at the Council we are asked to make further concessions on oil import targets in 1980, we should stick by the 12 million tonnes net import figure. Although it is desirable to get agreement on the 1980 import figures in advance of the IEA Ministerial Meeting on 10 December where the USA will be pressing for further cut backs in oil consumption, the Energy Secretary's rejection of any departure from the United Kingdom net import figure of 12 million tonnes is clearly right. We shall moreover probably enjoy the support of other Member States in pressing the French to lift their reserve.

3. As regards coking coal (where a decision is required by end December), the Energy Secretary recommends that we do not oppose an extension of the existing coking coal aids decision for two years (which mainly benefits the Germans) provided it is agreed the United Kingdom continues to make no direct Government contribution to its financing. (We do however contribute about £0.7 million a year through the ECSC budget - £0.1 million by Her Majesty's Government and

£0.6 million by the coal and steel industries). In addition it is suggested that our representative at the Council (Mr Lamont) should take an opportunity to say to the Germans that we are not opposing extension of the decision on the understanding that they will give a fair wind to United Kingdom proposals for a new Community coal programme with major emphasis on aid to coal production (the element most beneficial to the United Kingdom).

4. To block extension of the coking coal decision at this stage would irritate the Germans. It would be regarded as an act of pettiness and unlikely to help induce the Germans to be more amenable on the budget in the lead up to the next European Council. On the other hand, Chancellor Schmidt made difficulties over the suggestion that the United Kingdom (and not Germany) should get additional receipts to finance our coal investment. At the least, therefore, Mr Lamont should make it clear to the Germans that, in addition to expecting them to give a fair wind to United Kingdom proposals on coal when they are further discussed within the Community, we expect them not to complicate settlement of the United Kingdom net budgetary contribution issue at the next European Council by pressing their own claims for assistance in the coal sector ~~when~~ if special supplementary measures to aid the United Kingdom ~~is~~ are proposed as part of the solution. If you agree, this point might be incorporated in any reply sent to Mr Howell.

ROBERT ARMSTRONG

3 December 1979

CHIEF SECRETARY TO THE TREASURY

Awaiting CO advice

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
LONDON SW1

3 December 1979

Dealt with

Dear David,

COMMUNITY COKING COAL SCHEME

Thank you for sending me a copy of your letter of 26 November to Peter Carrington about our attitude to the future of the Community scheme to support intra-Community trade in coking coal. You proposed that we should agree to a continuance of the scheme with whatever level of Government contribution the Six agree on. But in giving our agreement we should make it clear that we are not prepared to see an increase in the UK contribution above the minimal amount we now provide through the ECSC budget except as part of a satisfactory coal package.

I must confess some reluctance in agreeing to your proposal. I had hoped that we could use the Germans' enthusiasm for an increase in the level of the subsidy as a lever, albeit a small one, in helping us secure a satisfactory comprehensive coal package. Agreement to increased subsidies now makes that more difficult. However, I accept that it is difficult for the UK to hold out against the compromise which seems to be emerging in Brussels if one element in it is that the cost of the increase in the subsidy is paid for by increases in the contributions by the Six governments with no extra costs falling on the UK. I think it essential that our agreement to the increase subsidy levels should be on the explicit understanding that there will be no increase in the UK contribution to the Scheme except as part of a satisfactory coal package. Provided that that is understood, I can agree to your proposal. As you say, our tactics will have to be reviewed at the last minute should the outcome of Dublin make that necessary.

I am sending copies of this letter to the Prime Minister, the members of OD(E), Sir Robert Armstrong and Mr Michael Butler.

Yours

John Biffen

JOHN BIFFEN

Foreign and Commonwealth Office
London SW1

30 November 1979

Dear David,

COMMUNITY COKING COAL SCHEME

Thank you for your letter of 26 November to Peter Carrington on the Community coking coal scheme.

I agree with the argument put forward in your letter; and,subject to the views of the Prime Minister on her return from Dublin, I think that we should accept a continuation of the scheme, in the absence of agreement on a broader coal scheme, provided that such continuation does not involve greater financial obligations for the UK, if that is what the original 6 members of the Community would like. The scheme is of more concern to them than to the 3 'new' members of the Community and it would be churlish of us to hold up progress on something in which we do not have a direct interest.

At the end of your letter you raised the legal point which is under discussion between your own Department and the Law Officers Department. I agree that ideally we should ask that the sales aids of the coking coal scheme be continued by means of an amendment to the earlier Commission decision (73/287). Here too, however, I agree that we should not press our point. If others who are more directly concerned wish particularly to proceed by means of a new decision I hope that we can agree that we do not need to stand in their way. We await the Solicitor General's views. If he insists that we cannot accept a new decision should that be the firm preference of others, I think that we shall need to do two things urgently:

/(i)

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy

(i) warn the Germans of our legal difficulty in order to convince them that the legal problem is not a camouflage for a last-minute policy objection on our part to the continuation of the scheme;

(ii) take the line at the Energy Council that the Council should agree in principle to the continuation of the coking coal scheme on the basis set out in paragraph 2 above. Officials should be asked to agree on a legally satisfactory way of achieving this.

I am sending copies of this letter to the Prime Minister, to the members of OD(E), and to Sir Robert Armstrong.

yours ever

Ian.

3 - DEC 1979

SOLICITOR GENERAL

ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn 3407

30 November 1979

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON S W 1

Dear David,

COMMUNITY COKING COAL SCHEME

I have seen a copy of your letter of 26 November to the Foreign Secretary on this subject.

In my view it would be unwise to do anything other than agree to the amendment of Decision 73/287 to extend the sales aid Provisions until the Decision itself expires on 31/12/1981. It is true that this Decision unlike the Steel Aids Decision does not materially alter the balance of powers between the Community institutions and the Member States. However it does purport to authorize what is forbidden by Art. 4(C)ECSC Treaty namely a State aid on production.

If no agreement can be reached on amendment and re-enactment of the Decision is the only possibility you would need to ensure that Art. 1 is redrafted so that both the production aid and sales aid are defined as Community aids - and in my opinion it should be made clear to the Commission we are only willing to agree to the use of Art. 95(1) ECSC Treaty in this area on a temporary basis and that if such aids are contemplated on a long term basis then the Treaty should be amended.

In other words if re-enactment of the whole Decision were to be insisted upon by other Member States we should adopt very much the same stance as was adopted in relation to the recent Steel Aids Decision and I need not enlarge on that because I am sure that your own lawyers are fully seized of all relevant considerations.

The one thing which I would like to stress is that there is very real advantage in proceeding by way of amendment, amendment of the Sales aid provisions only. All that would be necessary then would be for you to satisfy yourself that the proposed amendments were necessary for the attainment of the objectives set out in Art. 3(a) and (d) of the ECSC Treaty and you could go ahead.

/This

SOLICITOR GENERAL

ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn

This may at first sight appear to be merely a matter of form - and to the extent that that is so that may presumably help you to obtain agreement to the course recommended. Be that as it may, the advantages for us on this one (legal) aspect, which may be of concern only to us, are in my view clear and substantial.

I am copying this to the recipients of yours.

Yours ever,

Ian

Civil Service Department,
Whitehall,
London, SW1A 2AZ

With the Compliments

of the

Private Secretary

to the

Lord President of the Council

LORD PRESIDENT OF THE COUNCIL

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

28 November 1979

Bill Burroughs Esq
Private Secretary to Secretary of
State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

29/11

Dear Bill,

COMMUNITY COKING COAL SCHEME

The Lord President has seen your Secretary of State's letter of 26 November to Lord Carrington.

Lord Soames has commented:

> "Can we not wait to see what happens at Dublin - and after?".

I am sending a copy of this to Michael Alexander at No 10 and to the Private Secretaries to members of OD(E), to Martin Vile in Sir Robert Armstrong's office and to Michael Butler (UKREP) in Brussels.

Yours sincerely,

Jim Buckley.

J BUCKLEY
Private Secretary

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

PPS please

PM agrees.
Dept of Energy informed.
[illegible]

The Rt Hon The Lord Carrington KCMG, MC
Secretary of State for Foreign Affairs
Foreign & Commonwealth Office
Downing Street
London SW1

26 November 1979

Dear Peter

COMMUNITY COKING COAL SCHEME

I am writing to seek a decision on our attitude to the future of the Community scheme to support intra Community trade in coking coal from which the Germans are almost the sole beneficiaries. This scheme continues until the end of 1981 but a decision has to be taken by the end of this year on the rate of aid for the next two years.

The present scheme costs up to 30 million eua a year. It is financed from three sources - contributions by the original six member governments, a special levy on the steel industry and the ECSC budget. The UK does not benefit from the scheme and we do not pay a direct government contribution. The steel industry pays the levy to the Exchequer who retain it - an arrangement needed to avoid giving our industry a commercial advantage over the Community industries. We do however contribute about £0.7 million a year through the ECSC budget - £0.1 million by HMG direct and £0.6 million by the coal and steel industries. And the British Steel Corporation naturally dislikes having to make payments of about £1½ million a year to the Exchequer.

Ian Gilmour, Keith Joseph, John Biffen and I agreed in correspondence at the end of October to recommend the Prime Minister if Chancellor Schmidt raised the subject at their meeting in Bonn to say that we were prepared to agree to continuation of the scheme on its present basis after the end of this year but that we would only consider an improved scheme as part of a generally satisfactory Community package on coal. In the event the subject was not raised by Chancellor Schmidt. But the Germans are pressing for a decision at a meeting of the Energy Council which is likely to be held on 4 December or soon after.

In discussions between officials in Brussels a compromise seems to have emerged under which the Energy Council would be asked to agree to a continuation of the scheme on its present basis but with an increase in the contribution by the six Governments to permit increases in the subsidy. Two alternative levels of contribution would be put to the Council involving total contributions by the six Governments of 25 million units of account and 31½ million units of account respectively. This would make it possible to increase the level of aid from the present level of 2.11 eua per tonne on average to 3.20 eua per tonne and 3.63 eua per tonne respectively (assuming that it continues to cover 15 million tonnes).

My officials, while fully reserving our position, made it clear that an arrangement under which there was no increase at all in the small UK contribution was the only basis on which agreement to a continuation of the scheme was likely to be possible in advance of general package on coal. This was generally accepted at the time but I understand that in subsequent discussion in COREPER the Italian and Luxembourg representatives had reservations about continuing the special treatment of the three new members.

There is some risk that in agreeing to an improvement in the scheme now we will be setting a floor for an even more costly scheme to which we will have to agree to contribute as part of the general package on coal. But agreement on such a package is a long way off and it will still be for us to assess whether any overall package which eventually emerges is in our interests. I therefore seek authority to agree at the December Energy Council to a continuance of the scheme with whatever level of governmental contributions the six agree on, subject of course to a last minute review should the outcome of Dublin make that necessary. But we should make it quite clear that we are not prepared to see any increase in the UK contribution above the minimal amount we now provide through the ECSC budget except as part of a satisfactory coal package. If Italy and Luxembourg refuse to accept that, responsibility for the breakdown of the scheme will rest with them. But I doubt if they will take things that far.

Finally a legal point on which my legal advisers are in touch with the Law Officers Department. The existing scheme is set up under a Commission Decision (73/287) which also permits national aid to the coal industries of the Community for the production of coking coal. The Commission would like to replace that decision by a completely new one. I intend to suggest that it should instead be amended. This point arises from doubts expressed recently, on the basis of advice from the Law Officers, regarding the vires for a proposed decision on State aids for steel. Similar doubts could well arise in relation to the provisions for national production aid for coking coal, which at present are also in Decision 73/287, if the new Decision were also to re-enact these as the Commission appear to envisage. I hope there will be no problem over this. But it would be helpful if the Attorney General could agree that in the last resort we need not press this point. To do so would raise doubts about our own national coal aids.

I should be glad to know by Monday 3 December if you and our other colleagues are content with the line above.

I am sending copies of this letter to the Prime Minister, the members of OD(E), Sir Robert Armstrong and Mr Michael Butler.

Yours ever

David

D A R HOWELL

Original on Energy Policy Pt 2.

Prime Minister

Energy

TL 28/9

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

28 September 1979

Dear Tim,

MEETING OF THE SUMMIT ENERGY MINISTERS : 26 SEPTEMBER 1979

My Secretary of State minuted the Prime Minister last Friday about the line he proposed to take at this meeting and there has been separate correspondence about the Community's 1985 import targets.

In the event all our objectives were successfully achieved. In the run-up to the meeting the individual targets for the EEC countries were finally settled, with the UK accepting a figure of minus 5, as agreed. These targets were formally announced at the meeting; my Secretary of State made it clear that if in the event UK net exports were higher than 5 million tons, that would be solely a matter for the British Government and would not affect the targets of other Community countries. This was not disputed. It means that from the point of view of targetry other Community countries have no interest in pressing us to a higher level of production.

On the other agenda items, it was agreed that further work on the oil import register should continue in the EEC and the IEA. The mandate for the proposed International Energy Technology Group was agreed on a satisfactory basis. The High Level Group to monitor the 1985 targets will meet at official level and will have strictly limited terms of reference. There is no commitment to any further meeting of the Energy Ministers of the Summit countries.

I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to Martin Vile in the Cabinet Office.

Yours ever,

Denis

Denis Walker
Private Secretary

CONFIDENTIAL

tmw

c.c. FCO
HMT
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SO
Cab.Off.

Energy

10 DOWNING STREET

From the Private Secretary

25 September 1979

North Sea Oil

The Prime Minister has seen the Lord President's minute to her of 24 September about national oil import targets. As I have already informed the Cabinet Office, the Prime Minister has agreed that our representative at this morning's COREPER meeting in Brussels may indicate a willingness on the part of the UK to accept an oil export target of 5 million tonnes for 1985.

I should make it clear that the Prime Minister has agreed the recommendation in the Lord President's minute with considerable misgivings. She believes that we are in danger once again of making a concession without getting anything tangible in return. She accepts the Lord President's analysis of the negotiating situation in which we have arrived as a result of the Tokyo agreement but is not convinced that it is in our own interests to move to a net export position by 1985. The Prime Minister therefore attaches considerable importance to the contingent nature of the offer being made this morning.

I am sending copies of this letter to the Private Secretaries of the other members of OD(E), to Godfrey Robson (Scottish Office) and to Martin Vile (Cabinet Office).

MO'DBA

Jim Buckley, Esq.,
Lord President's Office.

CONFIDENTIAL

25G

(1)

10 DOWNING STREET

Prime Minister.

You have, I know, been very reluctant to envisage our being committed to any net oil exports in 1985. The view taken by OD(E) this morning was that 5 million tonnes would not prejudice depletion policy & might enable the EEC to establish a common position to-morrow before the Paris meeting.

It would v. difficult to keep this card in your hand until Dublin. But, given that we are talking about 1985, you can easily threaten to remove it from the table again if you do not get satisfaction on the Budget.

The offer will be withdrawn to-morrow if it does not result in an EEC position being agreed.

[signature] 24/5

CONFIDENTIAL

Had I been at the meeting I should have argued strenuously against this policy. Yet again we are giving something away without getting anything in return. The Tokyo finger can't be pointed at us. It was I who tried to prevent Giscard from getting Italy & the EEC into this position. Now we are the losers. P.T.O.

PRIME MINISTER

1. In the Foreign and Commonwealth Secretary's absence in New York, the Sub-Committee on European Questions of the Defence and Oversea Policy Committee met this morning under my chairmanship and discussed the Energy Secretary's letter of 21 September to Lord Carrington (copied to you) about the negotiations in Brussels on National Oil Import Targets for 1985.

2. At the Energy Council on 20 September it was suggested that if the UK would move to a net export target of 10 million tonnes, other countries would also be willing to make some move from their declared positions. Further efforts are to be made to agree a Community position at COREPER tomorrow morning in advance of the meeting of Tokyo Summit Energy Ministers in Paris on Wednesday. The Energy Secretary suggested that if Sir D Maitland were authorised at tomorrow's meeting to advance from net self-sufficiency to a target of 5 million net exports in 1985 it might still be possible to clinch a deal on this sensitive issue in advance of the Paris meeting.

3. No one at the meeting argued that a move to 5 million tonnes net export would be unacceptable to us or would seriously prejudge decisions on depletion policy. Neither, of course, does it carry any implications about our trade in oil with Community Countries. The argument was essentially a tactical one, and on this the view of the Sub-Committee was that, if such a move could clinch a deal tomorrow it would be well worth making. Failure to have a Community position at the Paris meeting of Tokyo Summit Energy Ministers would exacerbate relations with the Americans who were already annoyed at what they considered to be backsliding by the Community from the Tokyo Summit commitment as a result of the taking of credit for North Sea oil production in EEC calculation of import figures. Failure to achieve a Community position as agreed at Tokyo would be damaging in the wider international context, for the whole Tokyo commitment would be called in question, and many fingers pointed at us. On the other hand, the Sub-Committee did not consider that movement to a net target of only 5 million tonnes in 1985 was a significant bargaining card in the context of our Budgetary negotiations. Refusal to make such a minor move would only generate disproportionate friction inside the Community, and thus be unhelpful rather than helpful to you at the Dublin meeting. We were quite clear however that the offer should be contingent on others (the Germans, Italians, Dutch and Danes) making corresponding movement to make agreement possible and should be withdrawn immediately if no such agreement was forthcoming.

4. In view of the implications for our relations both with the Americans and the Community I should be grateful for confirmation that you are content with the Sub-Committee's decision before instructions are sent to Sir D Maitland for tomorrow's COREPER meeting. x

S.

x The meeting starts at 0900 London time.

SOAMES
24 September 1979

Perhaps that was Giscard's aim right at the beginning and now by this proposed course of action we are playing into his hands, and forgetting our own interests.

24 SEP 1979

I think the offer should be subject to confirmation if possible. If not, having got the committee's agreement we can go ahead

but

I think the decision is totally wrong.

M.T.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Lord Carrington
Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
LONDON SW1

21 September 1979

Dear Peter

At their meeting on 13 September (OD(E)(79) 10th meeting item 2) OD(E) agreed that at yesterday's Energy Council I should at a suitable point accept a UK target of no net imports and no net exports in 1985 but I should not go beyond net self sufficiency without further reference to the Sub Committee. I am now writing to report the outcome of yesterday's Energy Council and to ask despite the short notice that this subject should be further discussed in OD(E) on Monday.

The Energy Council quickly reached agreement on national import targets for 1980. As I emphasised this agreement was possible because of the quick build up of North Sea production. The Council agreed that subject to a German preference for ranges we should seek to reach agreement on single figure national targets for 1985. A working party of officials then produced the attached table of targets which might be acceptable for member Governments. They total 496/500 million tonnes compared with the Tokyo commitment of 472 million tonnes for the Community as a whole. The UK is shown with a net import requirement of 9 million tonnes.

In a restricted session over lunch I indicated that we could accept a 1985 target of no net imports provided others were also flexible. This leaves a gap of 15 to 19 million tonnes compared with the Tokyo target. Several of my colleagues, particularly Lambsdorff, indicated that they would be able to move further if we would go a little further. There is also a possibility that the Community could reasonably argue that the target should be up to 8 million tonnes higher than 472 million tonnes on the ground that 1978 imports were artifically depressed by destocking during that year. So there is a real possibility of a quick settlement. There is to be a restricted session of COREPER today followed by another on Tuesday which will seek to reach agreement before the meeting of Summit Energy Ministers on Wednesday.

As you know I have throughout been very reluctant to agree to a target which involves any net exports. That could be the start of a slippery slope. But I fear that at some stage we are going to have to make a concession in order to settle this issue. The question is whether we should do so at once in the hope of a quick settlement or hold back any concession in the hope of a quid pro quo on the Community budget.

The arguments for the first course are that our partners see our present position as fundamentally unreasonable. They are making much of the fact that the UK's forecasts both of North Sea production and of the economic benefits to be derived from the North Sea have hitherto always shown a substantial net export in the mid 1980's. They say that it was on this basis that they agreed at Strasbourg to limit the Community's net imports in 1985 to the 1978 level of 472 million tonnes. They are not impressed by the point that these are forecasts on the basis of present policies and that there has been no commitment at all to a continuance of these policies. They will not regard our agreement at a late stage to a small net export target on a concession of any significance. To hold out will sour the atmosphere: and at the end of the day we might have to concede a larger net export target than if we go now for a quick settlement when it is important particularly to the Germans to reach an agreement for the 26 September meeting of Summit Energy Ministers.

The argument for the second course is that North Sea oil is becoming a subject of almost emotional importance to our partners. Any concession we make ought to be worth something. The fact that the concession is cosmetic not real is an advantage rather than a disadvantage. It can be argued then to achieve a settlement on the budget we should play every card we have in our own time and on ground of our own choosing.

From a purely energy point of view I would prefer to go for a quick settlement. But the choice between these two courses involves wider questions of Community policy on which I would like to hear my colleagues views. However if the decision is to go for a quick settlement I think the most that Sir Donald Maitland should be authorised to offer at COREPER on Tuesday is to accept a UK net import target of 5 million tonnes for 1985. He should make this offer if but only if it will achieve an agreement. If no agreement is reached any offer should be withdrawn.

Two other points:

(a) It was suggested that there should be a footnote to the agreement which made it clear that the UK figure was on the basis of present production policies. Apart from the fact that a target of 5 million tonnes would be lower than the central forecast on those policies such a foot-note would be a hostage to fortune. It would lay us open to pressure to increase production if others failed to secure the consumption saving needed to achieve the Community target.

(b) It will be made clear in any agreement, whenever reached, that some adjustment of the national targets will be possible in the light of changes in economic growth - a point which was recognised in the Tokyo communique. M. Giraud proposed yesterday that there should be provision for handling flexibility on a Community basis. We will need to take the greatest care to ensure that any formulation contains not the slightest implication that we are expected to increase North Sea production if other Community countries fail to achieve their oil import targets. My officials will work out with the FCO and UKREP some forms of words which safeguard our position. As far as possible we should stick to the form of words agreed in Tokyo.

I am sending copies of this letter to the Prime Minister, the other Members of OD(E), the Secretary of State for Scotland, Sir John Hunt, and Sir Donald Maitland.

Yours ever

David

D A R HOWELL

Original on:
Energy Policy Pt 2.
2
Energy

CONFIDENTIAL

Prime Minister

The Prime Minister

MEETING OF SUMMIT ENERGY MINISTERS

1 As you know, I am attending a meeting of the Energy Ministers of the seven Summit countries in Paris on 26 September.

2 The purpose of the meeting is to review progress on the follow-up to the energy commitments agreed at the Tokyo Summit in June. It is obviously right for us to work for a positive outcome, and to try to establish a broad consensus of a sort which will help advance the work already in hand in the Community and the IEA. But at the same time, I believe that our interests lie very strongly in the direction of confining the meeting strictly to reviewing the general state of the follow-up to Tokyo, and resisting any pressure for essentially new decisions or new action which could limit our freedom to develop our energy resources to the best national advantage. It would be particularly damaging to allow the meeting to undermine the position of the International Energy Agency as the principal focus of international work on energy matters, and to do so would of course risk a sharp reaction from the non-Summit countries.

3 We are likely to have support for these broad objectives from most other Summit countries (particularly the Germans). However the French, who are not members of IEA, and whose initiative was largely responsible for agreement that the Summit Energy Ministers should meet, have an interest in trying to shift the focus of international discussion on energy away from the IEA and into groupings to which they belong. I intend, if necessary, to resist firmly any pressure from them to agree to, for instance, the holding of Summit Energy Ministers' meetings on a regular basis. Such meetings would put us under undesirable pressure on issues like our North Sea policies.

4 The agenda for the meeting is attached. Discussion of the World Energy Situation and its Perspective is expected to be brief; the IEA Executive Secretary will introduce a short paper. On Restraint of Oil Imports and Consumption as I mentioned to you this morning some progress was made at the Energy Council on 20 September on defining oil import ceilings for 1985 for individual Member States. OD(E) will be discussing on Monday how we should take this further including the possibility of using any concessions we make as a counter in the negotiations on the Community budget. (I am sending X you separately my letter to Lord Carrington on this). The item on oil transactions covers such subjects as measures to regulate the spot market, and the proposed register of oil transactions. I will take the line that measures of this sort which are agreed in IEA or the Community must address themselves to real problems, not just to the symptoms. Discussion of alternative energy sources will necessarily be at a fairly general level, but it will be an opportunity for us to restate our commitment to developing nuclear

CONFIDENTIAL

power and coal. There will also be discussion of the mandate for the International Energy Technology Group, upon which a substantial measure of agreement was reached at a meeting of Summit Personal Representatives on 15 September. I will only agree a mandate which limits the work of the group to studies and contains no commitment to participation in expensive new international projects. Relations between producer and consumer countries may be discussed at lunch; I will make clear our scepticism over the possibility of making progress towards better producer/consumer understanding in the context of a "global negotiation" covering all the main North/South issues.

5 I am copying this minute to Peter Carrington, Geoffrey Howe and Sir John Hunt.

DH.

SECRETARY OF STATE FOR ENERGY
21 September 1979

ANNEX

ENERGY MINISTER'S MEETING

POSSIBLE ISSUES FOR DISCUSSION

1. World Energy Situation and its Perspective

2. Restraint of Oil Import and Consumption in the Short- and Medium- Term

3. Oil transactions

4. Alternative energy sources

   (a) Coal

   (b) Nuclear energy

   (c) New energy, including syn-fuel

   (d) IETG

5. Other matters agreed upon at the Tokyo Summit

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Mr G Walden
Private Secretary to the
Foreign Secretary
Foreign and Commonwealth Office
Whitehall
LONDON SW1

21 September 1979

Dear George,

EEC OIL IMPORT TARGET FOR 1985

At Count Lambsdorff's request the Secretary of State had a telephone conversation with the German Minister of Economics last night about the outcome of the discussions of EEC oil import targets at the Council of the EEC Energy Ministers yesterday.

Count Lambsdorff's main objective was to impress om the Secretary of State his view that more was at stake in agreeing the level of the UK oil production than establishing an EEC position for the Tokyo Follow-up Summit next Wednesday. In his view it involved the whole problem of the UK's relations with the EEC and was directly connected to the question of our budget contribution - a matter on which Germany has always been willing to discuss problems constructively.

Lambsdorff went on to say that the question of, say, 10 million tonnes in deciding the precise figure for the UK's net imports or exports was "peanuts". The essential factor was to agree some figures, otherwise we would be playing straight into the French and American hands. He explained this observation in terms of the internal politics of these countries. He had spoken to Henry Owen about the American attitude towards counting North Sea oil into the European target. Owen had made it clear that the US would attack the idea in Paris but in the end would probably accept the situation if Europe had agreed figures. This acceptance would be based on the recognition that we in Europe were "contributing to getting Jimmy Carter re-elected".

The Secretary of State pressed Lambsdorff to ensure that Germany adopted a flexible approach to the import target. Lambsdorff noted that if one country moved then it should be able to get all the others to move together.

Copies of this letter go to the Private Secretaries of members of OD(E), Micheal Alexander at No 10, Martin Vile, at the Cabinet Office and Robin Chattergee in Brussels.

Yours sincerely,

Bill

W J BURROUGHS
PRIVATE SECRETARY

DEPARTMENT OF ENERGY
Thames House South
Millbank
London SW1P 4QJ

Tel: Direct Line: 01-211
Switchboard: 01-211 3000

pl attach to David Howell's letter to Lord Carrington dated 21/9

With the Compliments of

the

Secretary of State

National Oil Import Targets for 1985 proposed by officials to Energy Council on 20 September

Belgium	29	million tonnes
Denmark	13	million tonnes
Federal Republic	144/148	million tonnes
France	112	million tonnes
Ireland	8.5	million tonnes
Italy	127	million tonnes
Luxembourg	2	million tonnes
Netherlands	51.5	million tonnes
United Kingdom	+ 9	million tonnes
Community	496/500	million tonnes

CONFIDENTIAL

cc FCO
HMT
LPO
MAFF
D/T
ATT GEN
LPS
CO

Energy

HS

bcc Alexander
Wolfson

10 DOWNING STREET

From the Private Secretary

21 September 1979

National Oil Import Targets to 1985

The Prime Minister had a brief discussion this morning with your Secretary of State about the outcome of yesterday's Energy Council.

Mr. Howell said that he had come under strong pressure to agree a positive net export target for 1985 so that other EEC members' import targets could be increased. However, he had stuck to the line agreed at OD(E) - that the UK could go no further than a target of zero imports. Count Lambsdorff had subsequently telephoned to press the case for a UK net export target of 10 million tons, and had hinted that a UK concession on this was necessary if the Germans were to take a sympathetic line on the EEC Budget at the Dublin Council.

If we did not offer a concession, it was very likely that there would be no agreement on the distribution of EEC members' targets in time for next week's Tokyo follow-up meeting. This would be badly received by the Americans.

Mr. Howell went on to say that it was now for consideration whether we should soften our position. OD(E) would be considering this Monday. In his view, it was unlikely that we would be losing anything if we offered a net export target of 10 million tons, since UK oil production in 1985 would almost certainly involve a surplus of at least this amount. However, this prospect was dependent on there being no change in current depletion policy - on which he would be bringing forward a paper soon.

The Prime Minister said that she was absolutely opposed to offering a positive export target as a bargaining counter on the EEC budget issue if this meant producing more oil than we and/or the oil companies would otherwise want to. However, she noted what Mr. Howell had said; and agreed that it might be looked at as a possible bargaining counter on the budget issue.

/ I am sending

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I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to Sir John Hunt.

T. P. LANKESTER

Bill Burroughs, Esq.,
Department of Energy.

Energy

BF to BGC 10/VIII

MAP 31/VII

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

The Rt Hon the Lord Carrington, KCMG, MC
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street

31 July 1979

Dear Peter

EUROPEAN COMMISSION AND NORTH SEA OIL POLICIES

At their meeting on 25 June, OD(E) asked me to discuss with Commissioner Davignon the three issues of North Sea policy, which he had raised with my predecessor - full and fair opportunity for UK companies in the supply of North Sea equipment; the requirement that all North Sea oil must be landed in the UK unless I grant a waiver; and the requirement that North Sea Licencees must have a central management and control capability in the UK.

I met Davignon on 26 July; he was conciliatory and relaxed. The outcome was:-

(a) Full and Fair Opportunity

Davignon said he would be content with confirmation, which we can give, that this policy did not discriminate against Community companies.

(b) Landing Requirement

Davignon accepted by implication that he was only concerned with offshore-loaded oil and not with oil and gas pipelines. In the face of my explanation of the difficulties, he withdrew his earlier suggestion that HMG should undertake to grant waivers automatically to all Community companies. He suggested instead - emphasising that he was improvising - that a possible solution might be for us to declare our intention not to discriminate between UK and Community companies in the issue or refusal of waivers and to undertake to notify the Commission if we wished to refuse a request for a waiver from a Community company. The latter should be a practical arrangement and would be expressed as being without prejudice to the legal position of either the Commission or HMG. I agreed that this possibility was well worth exploring.

(c) Central Management and Control

I said we could accept the statement in Davignon's 'non-paper' of 25 January that if a company ceased to have a central management and control capability in the UK the Government would not automatically revoke its licence but would consider first whether out basic requirements (eg on safety and taxation) were still met, provided it was understood that these conditions would not normally be met if there were no central management and control here. Davignon said that this was "obvious".

The next step is for officials to work out texts to give effect to the understandings we reached. We are not yet entirely out of the wood particularly on the key question of how we define what happens if the Commission should object to any decision we might take to refuse to waive the landing requirement in the case of a Community company. But Davignon is clearly seeking a friendly solution and I hope to achieve one within the general limits laid down by OD(E) on 25 June.

At the end of our discussion, Davignon raised privately the question of interest relief grants on offshore supplies. He did not try to link it to the other three issues beyond saying that progress on them would be helpful when the Commission reconsidered IRGs in mid September. He hinted strongly that if we could make some move on non discrimination against Community suppliers that would be sufficient to avoid a Court case. I gave him no reason to think that we could move.

I will put to OD(E) in early September a paper on IRGs which will examine the possibility of a minimal concession on Community components compared with the alternative of standing firm in the hope that the Commission are bluffing. I will submit a paper on the other three issues after the discussion with Commission officials. My officials will of course be instructed that any understandings reached must be ad referendum.

I am sending copies of this letter to the Prime Minister, the Members of OD(E), Sir John Hunt and Sir Donald Maitland.

Yours ever

David

D A R HOWELL

2

10 DOWNING STREET

Prime Minister

You may like to see this FT piece on Urenco, the UK/FRG/Netherlands equivalent to Tricastin. Urenco's greater flexibility is clearly a plus.

BM.
19/6

Thankyou.

ans.

B-a
Bus, ah

FINANCIAL TIMES 19.6.79

Urenco undeterred by nuclear slowdown

BY CHARLES BATCHELOR IN ALMELO

THE URENCO uranium enrichment plant at Almelo in the Netherlands was once listed in the local trade directory under "spin-dryers and washing machines." The confusion arose because the Dutch part of the Anglo-German-Dutch venture is Ultra-Centrifuge Nederland (UCN)—and centrifuge has both meanings.

Any uncertainty remaining over the purpose of the plant, three miles from the centre of the small town of Almelo, was dispelled in March last year. More than 30,000 demonstrators surrounded the wire fencing and broke a few windows in protest against a plan to enrich uranium for Brazil. After lengthy and heated debates in the Dutch parliament, where many MPs were worried that the uranium could ultimately be used to make nuclear weapons, the deal has gone ahead. But the whole episode has not been without its consequences for Urenco.

Britain, the Netherlands and West Germany agreed to pool their research and development activities into the enrichment of uranium and signed the "Almelo treaty" in March 1970. A network of interlocking companies was set up involving both government and private industry capital.

The headquarters and joint sales organisation, Urenco, is based in Marlow in the UK while research goes on in all three countries. The two uranium enrichment plants currently in operation are at Almelo and Capenhurst in the UK, while a third plant at Gronau, just over the border from Almelo, is expected to be in operation in the early 1980s.

Almelo consists of two pilot plants of 25 tonnes capacity each and a 200-tonnes demonstration plant. This has shown that the technology developed in the pilot plant is applicable on a larger scale, but it is not large enough to cover the costs of its operations.

Work has now started on the first stage of a commercial plant which will ultimately have 1,000 tonnes capacity. The beauty of the centrifuge process, as against the gas diffusion method used in the U.S. and France, is that it is economic to add small units of extra capacity. This means a large financial commitment can be avoided in an uncertain market.

At first, only 400 tonnes capacity will be built around a central core housing the essential ancillary equipment. Later, units of 200 tonnes can be added as the need arises. Although this plant is designed for capacity of 1 000 tonnes, the technology is advancing so rapidly that 1,300 tonnes may be squeezed into the same space.

With the exception of the marketing department, which is in the U.K., Almelo is a fully self-contained operation. It has its own laboratory where much of the technology has been developed and its own factory to produce the centrifuge units which are at the heart of the process, according to Dr. Maarten Bogaardt, technical director of UCN.

By this method, the fissile uranium-235 isotope, which occurs in concentrations of 0.7 per cent naturally, is increased to about 3 per cent. The enriched uranium is cooled and piped back into small containers which are returned to the customer.

The controversy over the project has had two consequences for the Urenco group. The German utilities, which are large customers, pressed for the setting up of a plant in Germany—at Gronau—beyond the control of the strong anti-nuclear lobby in the Netherlands.

It also persuaded the five Dutch companies who together own 45 per cent of UCN that political considerations would weigh more heavily than commercial ones. This decided the Royal Dutch Shell group, the chemicals concern DSM, Philips, the shipbuilder Rijn-Schelde-Verolme, and the engineering group VME-Stork against participating in a planned capital rise. When this goes through, the Dutch state will hold nearly 99 per cent of UCN. However, a number of German concerns remain shareholders in the German partner, Uranit.

According to Mr. Johan van Hasselt, administrative director of UCN and a former Shell manager, the move to almost complete state control will not change UCN's commercial character. "This won't make it any more difficult for us to carry on our work. Since Parliament has to approve the export licences, we are under the politicians' control anyway."

Urenco claims that, of the world's four enrichment suppliers, only two are attempting to operate on a commercial basis. The U.S. Department of Energy, which operates more than 60 per cent of the world enrichment capacity of 30,000 tonnes, quotes unrealistically low prices which barely cover its energy costs. The U.S. price of \$86 per kg should be at least 50 per cent higher if normal commercial criteria were applied, Mr. van Hasselt says.

The Soviet Union, with around seven per cent of world capacity, deliberately sets its prices five per cent below the U.S. level. This leaves the French group, Eurodif, which will soon have 25 per cent of world capacity, and Urenco, with about five per cent—when its present expansion to 2,000 tonnes is completed—to compete on a commercial basis.

Although Urenco's prices are higher than those of the U.S. or the USSR—a recent contract was reportedly signed for \$100 a kilo—it claims to offer a better service. Some customers have become concerned at the U.S. Department of Energy's high-handed tactics and have switched contracts to either Urenco or Eurodif.

Urenco now has orders for 27,000 tonnes of enrichment work worth Fl 6bn (£1.36bn) which will keep its plants in the UK, the Netherlands and soon West Germany, busy until 1995. Sixty per cent of the work is for German customers, 30 per cent for those in the UK and ten per cent for Brazil.

Ironically, its only customer in the Netherlands is the small experimental nuclear power station at Dodewaard near Nijmegen. The Netherland's only commercial nuclear power station at Borssele, with 450MW capacity, obtains its enriched uranium requirements from the U.S.

Although the length parliamentary delays have meant UCN is having to expand rapidly to fulfil its contracts, uranium enrichment capacity in the world is at present double the annual demand of 15,000 tonnes. Demand is forecast to grow to 45,000-50,000 tonnes by 1990 and may then slightly exceed capacity.

A group of Christian Democratic MPs is calling for a meeting with the Dutch Foreign Minister to discuss reports that secrets stolen in the Netherlands could give Pakistan the capacity to make nuclear weapons, writes Charles Batchelor. An investigation into claims that a Pakistani metallurgist, who worked in Urenco, stole documents between 1972-75, was begun in October and is still continuing.

The MPs are particularly concerned that secret service screening procedures may not be tight enough and that Holland's position as an opponent of the spread of nuclear weapons may have been damaged.

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FILE

Energy

Copied to:
Euro Pol: Jenkins
May 79.

and on Energy: Policy.
May 79

ANSWERS on

10 DOWNING STREET

From the Private Secretary

~~B/F 30.v.79~~

21 May 1979

B.F. 11/6

Dear Paul,

Call on the Prime Minister by the President of the European Commission on 21 May 1979

The President of the European Commission, Mr. Roy Jenkins, called on the Prime Minister at No. 10 today at 12 noon. Mr. Jenkins was accompanied by Mr. Tickell; Mr. Michael Franklin (Cabinet Office) was present.

I enclose a copy of my note of the Prime Minister's discussion with Mr. Jenkins. I should be grateful if you would ensure that it is given the restricted distribution appropriate to Prime Ministerial records.

You will note the Prime Minister's reference to the need for co-ordinated research on the bargaining position of the West, and of the EEC in particular, vis-a-vis OPEC in any forthcoming negotiations on oil prices and supplies. I should be grateful for advice on how such a study might be initiated, either nationally or within the Community framework. I should also be grateful if the CIA paper produced in 1976, to which Mr. Tickell referred, could be identified and a copy sent to me for the Prime Minister's information.

I am sending copies of this letter and enclosure to Garth Waters (Ministry of Agriculture, Fisheries and Food), Andrew Duguid (Department of Industry), Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office).

Yours ever,

Bryan Cartledge.

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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Euro Pol: Policy: May 79
Euro Pol: CAP: May 79

Euro Pol: Jenkins: May 79

Note of the Prime Minister's Conversation with the President of the European Commission, Mr. Roy Jenkins, at 10 Downing Street, on 21 May, 1979, at 12 noon

Present:

The Prime Minister
Mr. Michael Franklin
Mr. B.G. Cartledge

The Rt. Hon. Roy Jenkins
Mr. Crispin Tickell

After welcoming the President of the Commission, the Prime Minister said that it would not be necessary to repeat to him the Government's general approach to Europe, which was that inherited by the Conservative Party from Mr. Macmillan and Mr. Heath. There could be no question of the UK ever again standing outside Europe, and the Government was fully aware of the great advantages which accrued to the UK through her membership of a larger group of nations. The UK would continue to fight her corner in the Community vigorously, but this would be done against an overall background of cooperation with her partners. The Prime Minister said that the EMS posed problems for the UK since the Government wished to retain a high exchange rate for the pound for the time being: the outlook on inflation was not good, and it was doubtful that the UK would be able to enter the EMS in September, although she would probably be able to give a demonstration of her good intentions by swopping some of our gold and dollar reserves for ECUs. The Prime Minister said that she was not persuaded that the EMS could in itself bring about the convergence of the EEC economies; this could only be done by the adoption of convergent policies by the member governments.

Mr. Jenkins said that he thought that the argument in favour of UK entry into the EMS in the autumn was that late joiners were apt to suffer disadvantages, just as the UK had done in relation to the EEC as a whole. The Prime Minister agreed, but

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pointed out that no one could have foreseen that the CAP would have to operate in circumstances of such wide currency differentials, and of such high levels of MCAs. The structure of the CAP made no sense in current circumstances. The Prime Minister said that she did not complain about the fact that, as a result of the UK's lack of competitiveness in the industrial field, Europe enjoyed unchallenged access to the UK market for manufactured goods. She did, however, complain about the fact that in agriculture, where the UK was so much more efficient than her continental partners, the UK was denied an equivalent market for her agricultural produce. At the moment we were losing all ways round, and on fish as well. The present structure of the CAP could not last, and something had to be done about it. Mr. Jenkins said that the budgetary allocation to the CAP was immense: but this problem should not be confused with that of the structure of the CAP itself. It was not possible to solve the problems of the Community budget by way of reforming the CAP, although a further escalation of the cost of the CAP could and should be prevented.

Mr. Jenkins went on to say that the Commission completely stood by its commitment to a price freeze for agricultural products which were in surplus, and wished in addition to do something about milk by means of the co-responsibility levy. If the cost of the CAP were allowed to escalate further, any effort to solve the problem of the Community budget would be neutralised. The Prime Minister told Mr. Jenkins that the UK would stick firmly to the VAT 1% ceiling. Mr. Jenkins expressed some doubt as to whether this could in itself contain the cost of the CAP.

Mr. Jenkins said that everying he had heard from German sources indicated that Chancellor Schmidt's visit to London had gone very well; but he gathered that the Prime Minister had found the Chancellor very hard on the subject of the budget. The Prime Minister said that she had been astonished to find a

/disposition

disposition on Chancellor Schmidt's part to argue about the facts. Mr. Jenkins said that there was good reason to believe that what the Prime Minister had told Chancellor Schmidt about the budget had sunk in, and that the Chancellor was now much more disposed to recognise that there was a problem. The Prime Minister said that she, for her part, was deeply alarmed by the budget situation: partnership implied a just and reasonable deal for everybody, and the UK was not getting one from her EEC partners. Against this background, it was difficult to sell Europe to the British people. The Community approach to fisheries policy also hit the UK very hard: without some give on this issue, as well, it would be difficult to rally the British people to Europe.

Mr. Jenkins said that it had to be borne in mind that the UK was operating against the background of the renegotiation which had produced the present financial terms: there was a disposition to argue that the UK had made her bed, and should lie on it. It would be difficult to achieve the necessary adjustments unless the UK was seen to be co-operative in other fields. The Prime Minister said that it was important that Commissioner Gundelach should stand firm on farm prices. Mr. Jenkins replied that the Commissioner would do so so far as products in surplus were concerned, and also on the co-responsibility levy for milk. The Commissioner's concern was that the UK might destroy his efforts by its attitude to the co-responsibility levy. It would be a mistake to assume that all British agriculture was efficient and all continental agriculture inefficient; in some areas, the difference in efficiency was in fact very small. The Prime Minister said she could not have British dairy farmers paying the co-responsibility levy when less efficient farmers were exempt.

Turning again to the budget, Mr. Jenkins said that it would be important for the UK to avoid giving the impression that the budget was the only focus of interest. The first essential, however, would be to ensure that the budget would be accorded full and serious discussion at Strasbourg. President Giscard, whom the Prime Minister was shortly to meet, would not be keen to

/ give

give ground on budgetary matters, and he, as President of the Council, would have a major say in the Strasbourg agenda. Mr. Jenkins said that he did not think that it would be realistic for the British Government to aim at a solution to the budget problem in June: the right strategy might be to aim at achieving a solution by the time of the December European Council, under the Irish Presidency. The Prime Minister commented that the first essential would be to secure an agreed statement of the facts of the budgetary situation. Mr. Jenkins said that there was no dispute about the broad essentials of the position; it was perfectly possible to demonstrate what had happened in 1978, and also what would have happened in that year under the 1980 rules. The difficult question was to arrive at an agreed assessment of the impact of the MCAs. In the UK, the MCAs benefited the consumer and the Treasury, but worked to the disadvantage of the farmers, whereas in the FRG the situation was reversed. The Prime Minister said that, even on the basis of the method of payment agreed in 1976, ie. that MCAs were paid to the exporting country, the UK remained the second largest net contributor to the Community budget. Mr. Franklin interjected that the UK would, on the same basis, be the largest contributor if it were not for the transitional arrangements. The Prime Minister quoted the figures in her brief for the net transfers by and to EEC Member States in 1978 and Mr. Jenkins confirmed that they agreed with his own. Mr. Jenkins went on to point out that, although it was possible to be clear about the position in 1978, there were a number of uncertainties surrounding the outlook for 1980. It nevertheless looked as if the UK would remain in net deficit, to the order of 1,440 million ecus if MCAs were attributed to exporters and 1,040 million ecus if they were attributed to importers. In 1980, the UK would probably be paying approximately 20 per cent of the Community budget while accounting for only 15 per cent of the Community's total GNP.

/ Mr. Jenkins

Mr. Jenkins said that the collective mind of the Community had been shifted so far as the issue of agricultural prices was concerned but was only just beginning to focus on the problem of the budget. He was bound to say that the approach adopted by the UK to other Community issues in recent years had not helped her case on the budget. Mr. Jenkins said that he would like to offer a word of advice about the position of Italy. Italy, like the UK, was in deficit so far as the budget was concerned - although to a lesser extent than the UK - but the Italian deficit seemed to be more cyclical than structural and could cure itself within the next two or three years as a result of other factors. This meant that the same remedies might not apply to both countries and that it might be more advantageous to the UK to seek a separate solution rather than a joint UK/Italian remedy. The Prime Minister commented that to ask for a separate solution seemed to her to be a bad negotiating position.

Mr. Jenkins said that the other members of the Community were antipathetic to the consideration of the UK as a permanently less prosperous country. They were inclined to take the view that the UK's lack of prosperity was largely her own fault; and the argument that the payment of money across the exchanges, as a result of the budget structure, actually held back the UK's rate of growth was on the whole unpersuasive in the Community. It would be better to argue that the effect of Community policies on the UK should be looked at overall and for a significant period in the future, from which it would be evident that the UK was not being given a fair deal.

The Prime Minister said that she fully accepted that the UK could and should be wealthier: but the new Government would not be able to turn the economy round if they were saddled

/ with a drain

with a drain of public expenditure resulting from the Community budget. She was still a little shocked that the basic facts should not be generally admitted.

The Prime Minister then referred briefly to the dispute between the Commission and the British Government over the order given to Harland and Wolff for a British Rail Ferry. The Prime Minister said that whatever excuses the UK was obliged to offer, Harland and Wolff would certainly get the order. Mr. Franklin asked Mr. Jenkins whether he would be willing to look into the matter with Commissioner Vouel or whether he thought it better that a British Minister should pursue it with the Commissioner. Mr. Jenkins said that he would certainly take the problem up himself but that the British Government could pursue it with Commissioner Vouel in parallel.

The Prime Minister then mentioned the Interest Relief Grant Scheme for offshore supplies. Mr. Jenkins said that he regretted that this matter had been taken up with the Government immediately after the Election: but the Commission had been reluctant to raise it during the Election campaign and Commissioner Vouel had been determined to put the problems on the desks of the last Government before it left office. The Prime Minister said that the Government was watching Mr. Davignon's activities over steel with some circumspection: they were apprehensive lest protectionism should enter the industrial sector as it had the agricultural. Mr. Jenkins assured the Prime Minister that Mr. Davignon did not have a protectionist attitude.

The Prime Minister asked Mr. Jenkins what the UK could do to give the Community evidence of its good intentions. Mr. Jenkins replied that much, but not everything, could be done by using the right words, as the Foreign and Commonwealth

/ Secretary had done

Secretary had done during his first meeting with his European colleagues. More practically, energy was a field in which the UK had both the resources and the experience to make a positive and constructive contribution instead of dragging her feet as she had done in recent years. Secondly, he was convinced that the UK should agree to a settlement on fish; the last Government had been very close to one. The Prime Minister said that she took a very hard line on the fisheries issue. Fish had been declared a common resource just before the UK's entry into the Community despite, or because of, the fact that the UK had the lion's share of the Community's fishing waters and of the Community's fish. When Mr. Jenkins referred to the possibility that a 12-mile exclusive zone combined with a quota system up to a 50-mile limit might provide the basis for a settlement, the Prime Minister said that she was opposed to quotas which were difficult to monitor. There could be no question of allowing Spain to enter the Community unless a settlement had been reached on fish in advance.

Reverting to the subject of energy, Mr. Jenkins said that it was clear that the Economic Summit in Tokyo would be dominated by energy issues. The Prime Minister said that she found it hard to see what specific agreements on energy the Tokyo Summit could reach. She was concerned that the EEC, and the West as a whole, had never played all the cards which they held in order to exert pressure on OPEC. Co-ordinated research needed to be done on this so that the West was in possession of all the facts which could form a basis of her bargaining position. Europe's agricultural surpluses, which were a burden in some respects, could turn out to be an asset in the context of negotiations with OPEC. Mr. Tickell commented that the CIA had produced a study of this subject in 1976. Mr. Jenkins said that this whole subject would be very suitable for discussion after dinner in Strasbourg.

/ The Prime Minister

The Prime Minister told Mr. Jenkins that the UK would need the help of her partners over Rhodesia. Mr. Jenkins said that the reaction to what Lord Carrington had said on this subject at his first meeting with the EEC Foreign Ministers had not been as negative as might have been expected. The other Governments of the Nine would inevitably take some time to adjust to the UK's change of policy but the initial reactions of the French, the Danes and the Luxembourgers had been mildly encouraging. In response to Mr. Jenkins' question, the Prime Minister confirmed that the British Government would not take this issue at a gallop: but the African attitudes were hardening and this caused her concern. Unless Bishop Muzorewa and Mr. Sithole were given some encouragement to make the internal settlement work, the consequences for Southern Africa could be very serious. The UK no longer had any basis for maintaining the illegality of Rhodesia's situation and would need constructive help from others. The Prime Minister said that she was very firmly of the view that it was for the people inside Rhodesia to decide on the Government they wanted and not for those outside the country who wished to settle the issue with guns.

Concluding the discussion, Mr. Jenkins expressed the hope that the Prime Minister would find time to pay another visit to Brussels; the Prime Minister said that she would certainly hope to do so.

The discussion ended at 1315. BGC

21 May 1979

Energy

10 DOWNING STREET

From the Private Secretary

21 May, 1979.

EEC Energy Research Projects

Thank you for your letter of 18 May, in which you set out the four issues concerning EEC energy research which could have given rise to reports that the UK had been responsible for holding up projects in this field.

The Prime Minister has seen your letter, and was grateful for this background information.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Andrew Duguid (Department of Industry), and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

W.J. Burroughs, Esq.,
Department of Energy.

CB

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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

Prime Minister
You asked about the background to the reports you had heard before the election.
[illegible] 18/5

Thank you [illegible]

18 May 1979.

Bryan Cartledge Esq.,
Private Secretary to the
Prime Minister,
10 Downing Street,
London SW1.

Dear Bryan,

EEC ENERGY RESEARCH PROJECTS

You wrote to me on 11 May about the Prime Minister's question whether the UK had been responsible for holding up a number of EEC energy research projects.

There have been four issues which could lend themselves to such interpretation.

1. One is the discussion and adoption of the Joint Research Centre programme in 1976/7. On this we have consulted D/Industry as this is primarily a matter for them within their overall co-ordinating responsibility for Community R & D. The Joint Research Centre is directly operated by the Commission with its main centre at Ispra in Italy. Contrary to many other research instutions virtually all of its R & D work is done in-house with very little sub-contracting. The 1977/80 programme of the Joint Research Centre was due to take effect from 1 January 1977, though in fact the Council did not decide upon it until nearly 8 months later. During negotiations, which began at a time of mounting general criticism of the JRC and which lasted some 20 months, the UK took the lead and pressed strongly for reforms in the technical management, financial control, and staffing policy of the JRC as well as for a less ambitious scientific programme than the Commission had proposed. The aim was to contain the cost of an expensive facility at a time of general retrenchment in European R & D expenditure, and to improve the technical quality and relevance of the work undertaken. Although some time before the UK had questioned the value of the Commission having a Joint Research Centre at all, it is accepted now that the structure and programme has been improved by the discussion and the consequent agreement between the Member Countries and the Commission.

2. While the JET fusion project was a separate issue, its resolution interacted, especially in Italian minds, with

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the JRC discussions. Although there was general agreement that JET should go ahead, the main cause of the protracted discussions was the dispute about its location which was eventually secured for the UK in October 1977, nearly two years after the siting team first reported in December 1975.

3. In addition there is the current discussion of the Commission's proposals for a second 4-year Energy R & D programme costing 125 meua. This is intended to replace the current programme which expires on 30 June. After long technical discussions it is expected that this will come before the Research Council for decision on 26 June. In these preparatory technical discussions the UK has been isolated in maintaining a general reserve on the proposals and seeking to establish a clear evaluation of the current programmes and future plans of the EEC and of Member States before judging the case for further expenditure. We have also been pressing that in any event the second programme ought to be more closely related to the Community's energy needs and be of an appropriate size, somewhat less than the Commission had proposed. We have rigidly maintained a reserve and the Commission and some Member States interpreted this as saying that we wanted no further programme at all. This interpretation protracted technical discussions. We have recently however been joined in the view that the programme should be more modest by the French and Germans and it seems fair to say that in the last three months significant progress has been made towards a satisfactory technical programme. We envisage continuing to be associated with the French and Germans in a constructive, though careful scrutiny, of the financial implications before the issues come to the Research Council. It should be noted that the issues have not yet been considered by the Secretary of State.

4. Finally, it is possible that our attitude to the EEC plans for energy conservation demonstration projects and for extending the use of alternative energies may be in question. On these we have now reached agreement on the overall costs and outline contents of schemes to be sponsored by the EEC, and also on the first individual cases. The UK initially however was sceptical about the overall sums proposed and the distribution between classes of project. At the time when these came to the December 1978 Council there was a real risk that the UK would receive less than a "juste retour" on its contribution. There were difficulties also in that the Council decided to change its original approach and was proposing to take further decisions in this field before we knew enough about the individual projects which were coming forward. In addition there were still unresolved technical differences in the relevant draft Regulations. However these problems were resolved at the March Council, and while there must inevitably be uncertainties about the financial outcome of the schemes (which are to operate over 4/5 years) we believe that the further negotiations between December and March resulted in schemes which give us a reasonable chance

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of a juste retour and in particular have increased the prospects of Community support for a second coal gasification project.

I am copying this to Paul Lever (FCO), Martin Vile (Cabinet Office) and Andrew Duguid (D/Industry).

Yours sincerely,

Bill

W.J. Burroughs,
Private Secretary.

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Energy TW

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10 DOWNING STREET

From the Private Secretary

11 May 1979

BF 18/5

EEC Energy Research Projects

The Prime Minister was told, before taking office, that the UK had in recent years been responsible for holding up a number of EEC energy research projects. The Prime Minister would like to know whether this is so.

I should be grateful for early advice.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

W.J. Burroughs, Esq.,
Department of Energy.

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